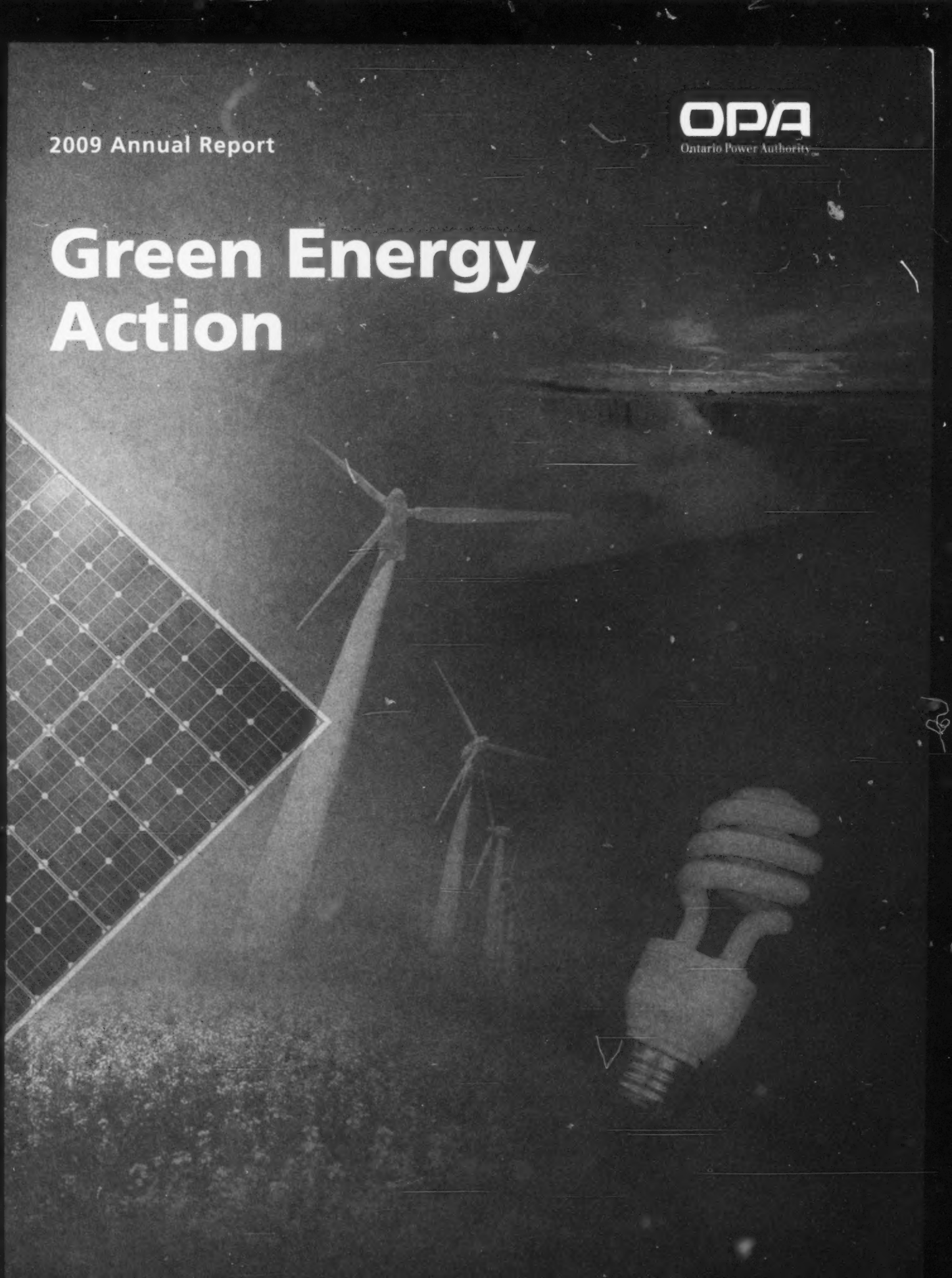
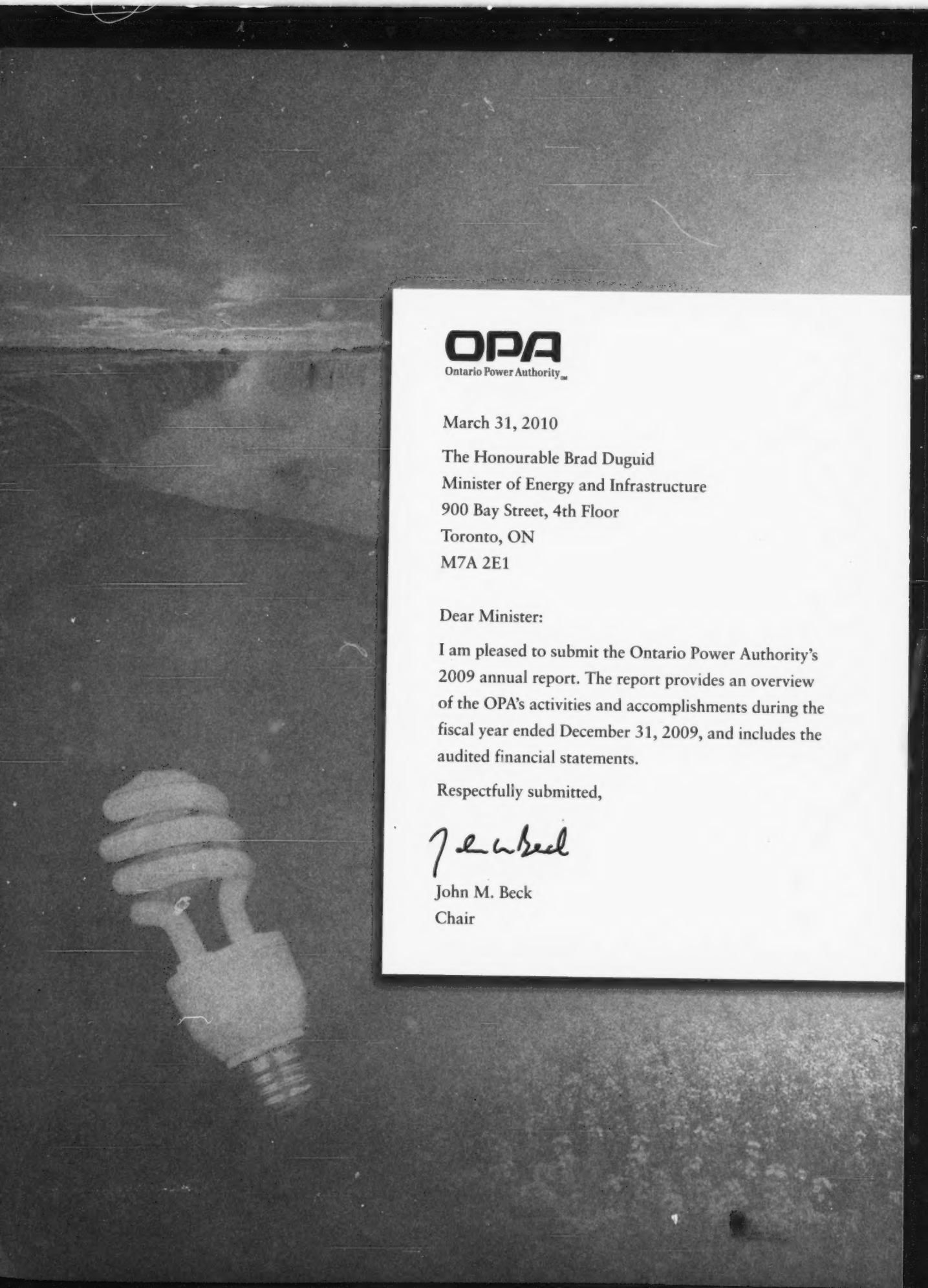
2009 Annual Report

OPA
Ontario Power Authority

Green Energy Action





OPA
Ontario Power Authority

March 31, 2010

The Honourable Brad Duguid
Minister of Energy and Infrastructure
900 Bay Street, 4th Floor
Toronto, ON
M7A 2E1

Dear Minister:

I am pleased to submit the Ontario Power Authority's 2009 annual report. The report provides an overview of the OPA's activities and accomplishments during the fiscal year ended December 31, 2009, and includes the audited financial statements.

Respectfully submitted,

John M. Beck
Chair

The Ontario Power Authority (OPA) is responsible for ensuring a reliable, cost-effective and sustainable supply of electricity for Ontario. Its key areas of focus are coordinating conservation programs across the province, planning the power system for the long term and ensuring the development of needed generation resources.

The OPA was established by the Electricity Restructuring Act, 2004 (amending the Electricity Act, 1998). It is governed by an independent board of directors and reports to the Ontario Legislative Assembly through the Minister of Energy and Infrastructure. The OPA is licensed and regulated by the Ontario Energy Board.

2009 Highlights

- Began implementing the Green Energy Act. This legislation is expected to support the creation of 50,000 jobs over the next three years.
- Reported verified conservation savings of 387 megawatts in 2008 and are moving toward the 2010 conservation target.
- Conservation portfolio enhanced and refined. Continued to support innovation and development in conservation and energy-efficiency sector.
- Laid groundwork for local distribution companies to deliver conservation programs to achieve their conservation targets under the Green Energy Act.
- As of December 31, 2009, the OPA had contracted for a total of 13,409 megawatts, including 3,709 megawatts of renewable energy supply.
- Successfully launched the Feed-in Tariff (FIT) Program. This program and a consortium agreement signed in early 2010 are expected to result in another 2,500 megawatts of renewable energy supply by 2013.
- Carried out the Minister's directive to execute hydroelectric contracts with existing projects.
- Developed support programs related to renewable energy for First Nations, Métis people, communities and municipalities.
- Continued engagement with First Nation and Métis communities on long-term planning of the electricity system and partnership opportunities in renewable energy generation.
- Developed an integrated solutions approach for local area supply. Implementation of solutions for areas with local electricity reliability constraints proceeded in the northern York Region and southwestern Greater Toronto Area. Solutions are under development for Kitchener-Waterloo-Cambridge-Guelph and Windsor-Essex. These solutions integrate conservation measures with the development of new supply and transmission enhancements.
- Long-term planning focused on implementing initiatives identified in the Integrated Power System Plan and authorized by ministerial directives, identifying transmission availability to support increasing renewable energy supply under the FIT Program and adapting to changing economic conditions in Ontario.
- Engaged in activities to develop Ontario's electricity sector, including the development of the smart grid to enable conservation, distributed generation and transmission of renewable energy supply.
- Undertook extensive stakeholder engagement on the OPA's conservation and FIT programs.

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For more information about the OPA's activities and programs, please visit the following OPA websites:
www.powerauthority.on.ca
www.everykilowattcounts.ca
www.powerauthority.on.ca/fit.

Message from the Chair and the CEO

Helping Ontario create green energy and jobs

The environment in which we operate has changed considerably in the past 12 months. The global economic crisis has resulted in a much tighter credit environment for those looking to invest in Ontario's electricity sector, both in conservation and generation. Environmental issues, particularly the need to respond to the climate change challenge, have sharpened the focus on how the province plans its electricity system.

Of particular significance, provincial policy has placed a much higher priority on renewable energy and conservation through the passage of the Green Energy Act. The Feed-in Tariff (FIT) Program, a key element of the Act, is the primary vehicle to increase the amount of renewable energy in Ontario. The OPA designed and implemented this program, which is the first of its kind in North America. Within the first two months after its launch, the program had attracted applications representing about 8,000 megawatts of new renewable energy – and worldwide attention.

In addition to encouraging billions of dollars of investment in Ontario's electricity sector, this push for more renewable energy is enabling us to eliminate coal from the province's supply mix – Canada's single largest climate change initiative. In fact, Ontario is the first jurisdiction in the world to eliminate coal-fired electricity generation. Also with the Act, responsibilities for conservation have been redistributed, with local distribution companies taking on a greater role in helping to achieve Ontario's aggressive 6,300-megawatt target to reduce peak demand by 2025 – once again leading North America.

The modernization of our electricity system to make it greener, cleaner and smarter will increase the costs of electricity. In return, consumers will have new tools to use electricity more wisely, manage their costs and generate electricity and revenue.

Of particular significance, provincial policy has placed a much higher priority on renewable energy and conservation through the passage of the Green Energy Act.

The changes over the last year have had a profound effect on our operations. The FIT Program shifted the bulk of our procurement activity away from being driven by discrete requests for competitive proposals to more of a focus on standard offer contracting. We have expanded our efforts to engage with First Nation and Métis communities, focusing on building capability and facilitating involvement in potential renewable energy generation projects. In addition, through the FIT Program we have helped households, community groups and municipalities to participate more than ever before in Ontario's electricity sector.

The OPA's operations also increased in complexity in 2009. This was reflected in the significant increase in the number and value of electricity contracts we managed, as well as in the increased emphasis on a dynamic and flexible approach to system planning. The OPA continued to have a role in emerging issues, but the issues themselves have become more complex – for example, Ontario's initiative to develop a smarter electricity system that will enable the two-way flow of information and electricity (the smart grid). At the end of the year, the OPA was managing contracts for more than 13,000 megawatts of electricity supply, and an investment of about $15.3 billion in electricity infrastructure was under way in the province.

To assist us in navigating this changing environment, we re-examined and restated our vision, mission and guiding principles (see page 25). In taking a fresh look at these fundamental statements, we incorporated some concepts important to us as

Colin Andersen, Chief Executive Officer John M. Beck, Chair

an organization – partnership, adaptability, looking ahead. In our guiding principles, we included some important themes that we identified as imperative to the OPA – transparency, accountability, collaboration and flexibility.

We also focused our efforts on building and enhancing an organizational culture and work environment that promotes a high-performing and engaged workforce by implementing a range of talent-management initiatives. These included realigning our organizational structure to meet new business imperatives in support of the Green Energy Act, delivering training and development programs for all employees and improving our performance management system.

The OPA's role in the electricity sector has evolved into that of facilitator, collaborator and enabler. This could be seen by the increased levels of consultation and collaboration in the development of the FIT Program – more so than we have ever undertaken before. We met extensively with stakeholders; local distribution companies; First Nation, Métis and other communities; as well as with other electricity agencies, particularly the Independent Electricity System Operator, Hydro One and the Ontario Energy Board.

In this context, the OPA is making strategic investments that are aligned with the government's green energy initiative. We will place a greater emphasis on building relationships and partnerships, and will approach communications in a more proactive, integrated way. For example, our role in planning and implementing conservation programs is evolving to support local distribution companies in delivering these programs. We will continue to live by our principles as we navigate our course in a rapidly changing environment, in which conservation savings are expected to increase significantly, as are electricity contracts under our management.

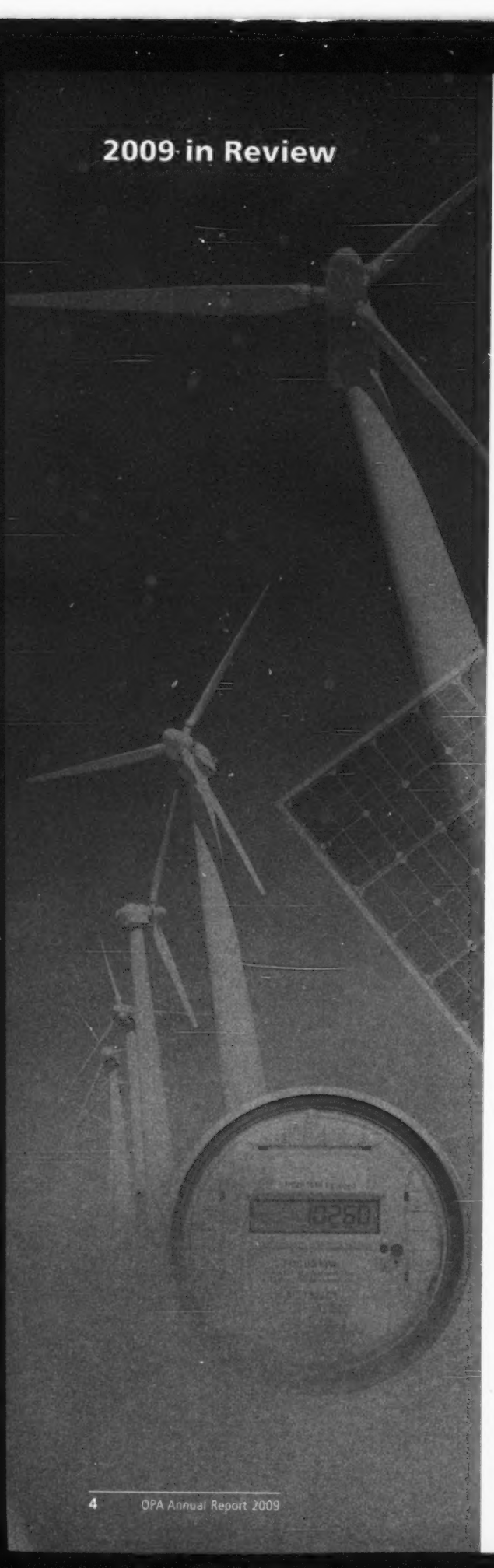
Electricity generation contracts under OPA management are expected to increase by 4,500 megawatts in 2010, representing an additional $7 billion in investment in the sector. Participation levels in OPA conservation programs in 2009 were lower than expected, largely due to the economic downturn. While we anticipate this trend will continue in 2010, participation levels are forecasted to improve as the economy recovers. Going forward, the OPA will continue to aggressively promote conservation activities in the marketplace.

Ontario is one of the few jurisdictions to take such a holistic or systemic approach to transforming its electricity system to meet the economic and environmental challenges of today. With substantive initiatives under way in every part of the sector – ambitious conservation, greener generation, significant transmission and long-term planning – Ontario intends to both realize economic benefits and involve increasingly engaged consumers in a smarter, more reliable, cost-effective and sustainable electricity system.

The Ontario electricity sector has come a long way in the past year. So has the OPA. We have enjoyed many successes to date, but much remains to be done to realize a greener and cleaner supply of electricity for Ontarians. The OPA will continue to fulfill its role in helping to transform the electricity sector in Ontario, to support the rebuilding of critical infrastructure for the economy of tomorrow and to make Ontario a world-leading green energy jurisdiction.

John M. Beck, Chair

Colin Andersen, Chief Executive Officer



The Changing Electricity Sector Landscape

The Green Energy Act significantly changed the electricity sector landscape in Ontario in 2009.

Tabled in February 2009 and passed into law on May 14, 2009, this broad-ranging legislation is intended to transform Ontario's electricity sector and to support the creation of 50,000 jobs over the next three years. In tandem with these changes, Ontario is phasing out coal by the end of 2014. This is the largest climate change initiative in Canada and is expected to reduce the province's carbon dioxide emissions from electricity generation by up to 30 megatonnes – representing a 75-percent reduction from 2003.

A significant global economic downturn also occurred in 2009 that had far-reaching effects across all sectors of the economy.

Throughout the year, the OPA engaged in a significant amount of activity related to implementing the Green Energy Act. These activities were primarily focused on procuring green electricity, electricity conservation and energy efficiency. At the same time, the OPA continued its activities to support all of its core functions – procuring clean energy (such as natural gas-fired electricity), planning Ontario's electricity system and participating in key industry initiatives to develop the electricity sector. As an enabler and facilitator, the OPA has played an important role in transforming the electricity industry over the past year.

Meeting Ontario's Conservation Goals

The Green Energy Act places an increased emphasis on conservation and energy efficiency in the province, including an enhanced role for the province's local distribution companies in driving conservation.

As the resource of first choice, conservation can reduce operating costs, is less expensive than building new supply and leaves a smaller environmental footprint.

Ontario is working toward a 6,300-megawatt peak demand reduction target by the end of 2025. Achieving this requires us to offset 75 to 80 percent of the forecasted load growth in less than 20 years – equivalent to removing one in five electricity users from the grid. This is one of most ambitious conservation targets in North America and possibly the world, and yet the OPA is looking for opportunities to accelerate it. Present predictions are that the target can be moved forward by one year – to 2024 – and that Ontario will actually exceed the overall 6,300-megawatt target by 300 megawatts by 2025.

Accelerating the conservation results will require effective conservation programs in the short term, aggressive demand management programs and increased energy efficiency in the mid-term, while the effects of changing codes and standards will be realized in the longer term.

After meeting the 2007 first interim target of a 1,350-megawatt peak demand reduction, the OPA's conservation programs maintained their momentum and continued to move the province toward the second interim target of a further 1,350-megawatt reduction by the end of 2010. In 2008, a peak demand reduction of 387 megawatts from OPA conservation activities was achieved toward the second target, and further gains were made in 2009. Verified results for 2009 are expected to be available in 2010.

The OPA-funded conservation portfolio

Conservation remained a key priority for the OPA in 2009. The portfolio of conservation programs developed by the OPA covers every sector of the economy.

The programs are divided into three areas: residential (in single- and multi-family buildings and including low-income groups), business (both commercial and institutional) and industrial. Table 1 on page 7 provides a brief description of the various initiatives within each of the programs in 2009. The portfolio approach enables the OPA to ensure that its initiatives are comprehensive, wide-reaching and cost-effective overall, and to focus on a range of important activities – from energy efficiency and demand management to conservation – through product rebates, building retrofits and direct installation services.

The OPA continued to refine this portfolio in 2009 and to adapt to the changes brought about by the Green Energy Act. Key objectives are to raise

Pictured above, Paul Shervill (left), the OPA's vice-president of conservation, presents the Discovery 09 student awards.

OPA sponsors student awards at Discovery 09 conference

The OPA sponsored student awards at Discovery 09, the Ontario Centres of Excellence fourth annual conference held in May 2009. More than 80 university and college students working on projects funded by the Ontario Centres of Excellence competed.

By working with a broad range of partners across the province – including local distribution companies, businesses, institutions and individuals – the OPA is helping Ontario achieve the best results for conservation and energy efficiency through programs.

awareness, educate consumers and deliver programs to every sector to conserve electricity and become more energy efficient. It also increased its focus on partnership and collaboration with local distribution companies. This collaborative approach is critical to meeting the province's conservation goals. By working with a broad range of partners across the province – including local distribution companies, businesses, institutions and individuals – the OPA is helping Ontario achieve the best results for conservation and energy efficiency through programs. Along with tools such as time-of-use rates and smart meters, these programs will help to empower Ontarians across the province to conserve electricity.

The Green Energy Act requires conservation targets to be established for local distribution companies as a condition of their licence from the Ontario Energy Board. In preparation for this, the OPA and local distribution companies will reconfigure the existing conservation programs into several province-wide conservation programs planned to take effect early in 2011. The OPA remains responsible for meeting the overall provincial conservation goals as set out in the Integrated Power System Plan. It will play a key role in facilitating the implementation of the government's green energy strategy by working closely with local distribution companies as they broaden their conservation responsibilities.

A number of program initiatives made significant gains in 2009. Several new initiatives (noted in Table 1) were introduced to expand the range of conservation and energy-efficiency incentives and opportunities for Ontarians. For example, a new demand response initiative, Demand Response 2, was launched early in 2009. This incentive program was designed to help large industrial and manufacturing businesses use less electricity when Ontario's power supply is short or very expensive. By targeting large industrial customers that can consistently shift their electricity requirements during peak periods, the program is expected to add to the more than 560 megawatts of peak load reduction the province can call upon during peak periods through other demand response programs.

The OPA also began consultations on a proposed new industrial energy-efficiency program in November 2009. The five-year program would be designed for large industrial companies to accelerate capital investment in major energy-efficiency projects. It would provide financial incentives to encourage innovative process changes and equipment retrofits. Companies would contractually commit to achieving specific conservation targets in a set period of time and to maintaining them over the life of the equipment. The program would target companies directly connected to the transmission system; the OPA is also in discussions with local distribution companies to partner with them in delivering a similar program to their industrial customers, including small- and mid-sized industries. It is expected to launch in the first half of 2010.

To verify and ensure the reliability of demand reduction and energy savings, the OPA undertakes rigorous independent evaluations of OPA-funded programs in accordance with international standards. Evaluations are also used to assess program design performance, provide information for continuous management improvement and validate input assumptions. All OPA-funded programs are undergoing evaluation at least once between 2008 and 2010. In 2009, the OPA evaluated the performance of 14 conservation initiatives that were in the market during 2008. The 2008 final conservation results were released in January 2010 and are posted on the OPA website.

Table 1: OPA 2009 Conservation Portfolio – Program Initiatives

Consumer	Business	Industrial
Free pickup of old, working energy-inefficient appliances (Great Refrigerator Roundup)	Incentives for retrofit (lighting, motors and HVAC) of existing buildings (Electricity Retrofit Incentive, Toronto Comprehensive)	Voluntary load shedding – incentives to reduce load during relatively high price periods (Demand Response 1)
Rebates on high-efficiency replacement space heating, cooling and ventilation systems (HVAC) (Cool Savings Rebate)	Incentives for energy-efficient new construction (High Performance New Construction)	Firm load shifting – incentives for regularly shifting production from peak to off-peak periods (Demand Response 2*)
In-store coupons for energy-efficient products (Every Kilowatt Counts – Power Savings Event)	Incentives for retrofit (lighting and water heating) of small businesses (Every Kilowatt Counts – Power Saving Blitz)	Firm load shedding – incentives for committing to reduce load when called upon (Demand Response 3)
Direct load-control devices for air conditioning and electric water heaters (*peaksaver*®)†	Incentives for metering and management of large-scale building complex cooling facilities (Chiller Plant Re-Commissioning)	Incentives for retrofit (lighting, motors and HVAC) of existing buildings (Electricity Retrofit Incentive, Toronto Comprehensive)
Incentives for retrofit (lighting, motors and HVAC) of multi-family buildings (Electricity Retrofit Incentive, Toronto Comprehensive)	Incentives for audits and retrofits of existing hospitality industry buildings (Windsor) (ENWIN Utilities – Green Suites*)	Incentives for energy-efficient construction (High Performance New Construction)
Festive light exchange programs, incentives for appliance retirement, lighting, power bars with integrated controls and ceiling fans (Toronto) (Toronto Hydro – Mass Market)	Incentives for commercial-scale computer facility energy-efficiency projects (York Region) (PowerStream – Data Centres*)	Significant funding for capital-intensive process improvement projects and studies for transmission-connected industrial energy users (Industrial Transmission-Connected Electricity Energy Efficiency*)
Giveaways of power bars with integrated timer (Thunder Bay) (Thunder Bay Hydro – Phantom Load*)	incentives for installing electrical outlet timers and controllers used for car block heater devices in winter (Thunder Bay) (Thunder Bay Hydro – Winter Parking Lot Control*)	Electricity bill credits for reducing demand in winter months compared to the same period in 2008 (Hydro One – Double Return – Winter)
Residential electricity bill credits for reducing consumption in summer months compared to the same period in 2008 (Toronto) (Toronto Hydro – Summer Challenge 2009*)	Direct load-control devices for air conditioning and electric water heaters for small commercial businesses (*peaksaver*®)	
Low-income: free installation of compact fluorescent light bulbs (Toronto) (Toronto Hydro – Low-Income)	Voluntary load shedding – incentives to reduce load during relatively high price periods (Demand Response 1)	
	Firm load shifting – incentives for regularly shifting production from peak to off-peak periods (Demand Response 2*)	
	Firm load shedding – incentives for committing to reduce load when called upon (Demand Response 3)	
	Electricity bill credits for reducing demand in winter months compared to the same period in 2008 (Hydro One – Double Return – Winter)	

*Denotes a new initiative in 2009.
† Registered trademark of Toronto Hydro Corporation. Used under licence.

Achieving conservation through awareness and education

In addition to designing and delivering conservation programs, the OPA continued to support and promote conservation and energy efficiency through education and awareness initiatives.

This was achieved through its marketing campaigns in various media, youth engagement activities and the Every Kilowatt Counts conservation program website at www.everykilowattcounts.ca. Other events included Electricity Conservation Awareness Day during a Blue Jays baseball game at the Rogers Centre in June.

Canadian Marketing Association awards 2009 bronze medal to the fall 2008 Every Kilowatt Counts Power Savings Event

Nearly 600,000 coupons were redeemed during the campaign, greatly exceeding expectations. Actual energy savings of 93,192 megawatt-hours were achieved and consumer awareness of the campaign reached 60 percent. The six-week campaign, which began on October 1, 2008, featured the coin bulb along with the dotted clip and save image, familiar to many Ontarians from previous campaigns.

The OPA partners with Ontario schools for innovative energy conservation program

The Conservation Fund is supporting the Ministry of Education's Energy Conservation Initiative to reduce electricity consumption in the education sector by 10 percent over five years. There are approximately 5,000 schools and administrative buildings across Ontario with a projected energy bill for 2009-2010 of about $459 million. The York Catholic District School Board received $250,000 in funding in late 2008 to support the initiative by hiring an incentive programs advisor. The advisor will help school boards access funding for energy-efficiency projects offered by natural gas utilities, the OPA, local distribution companies and the federal government.

As part of the Ministry of Energy and Infrastructure's education campaign to advance public awareness of energy conservation, the OPA developed and procured a media strategy for broadcasting and publishing the ministry's advertising campaign that ran from January to the end of March across Ontario. The campaign was co-branded with the OPA's Every Kilowatt Counts logo and featured environmentalist David Suzuki as its spokesperson.

The OPA continued its market research activities throughout 2009. These included early-stage research to inform the design and marketing of OPA-funded residential and business initiatives, as well as polling to monitor the effects of residential initiatives. This polling indicated that gains made in 2008 for program and marketing awareness were maintained in 2009.

To gauge conservation awareness, the OPA conducted its third annual electricity conservation attitudes and behaviour poll. The poll revealed a slight reduction in the priority given to electricity sector issues since 2008. The OPA also developed a metric to track progress in building a culture of conservation in the province, to be used starting in 2010. The metric will measure consumer attitudes toward electricity use and conservation by incorporating a number of factors such as personal awareness, leadership, public support, environmental and financial costs and the role of renewable energy. It will be used to track progress and to help focus conservation education and awareness initiatives.

Strengthening Ontario's culture of conservation

The OPA continued to support initiatives to create a culture of conservation in Ontario with its partners in conservation.

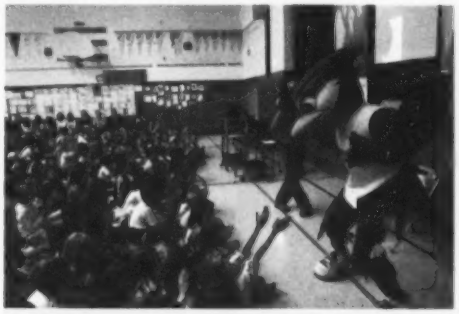
A significant effort was made in 2009 to make conservation more visible and to engage as many Ontarians as possible through a spring-summer energy conservation campaign. The campaign was launched at a conservation leadership summit held on April 23 and attended by more than 200 representatives from diverse sectors. The focal point of the campaign was a second province-wide Energy Conservation Week held from May 17 to 23, supported by more than 175 conservation-related events in dozens of municipalities.

The proclamation of the Green Energy Act means the conservation mandate in Ontario is now shared by the OPA, the Environmental Commissioner of Ontario, the Ministry of Energy and Infrastructure and the province's local distribution companies. These changes advance energy conservation and support the development of new, cleaner, renewable sources of power for Ontario.

Supporting innovation and new technology

The OPA continued to support innovation and new technology in the conservation, energy-efficiency and electricity supply sectors through the Conservation Fund and the Technology Development Fund.

The Conservation Fund provides support for new and innovative electricity conservation and energy-efficiency initiatives that will help reduce Ontario's demand for electricity. The Technology Development Fund helps to promote the development and commercialization of technologies that have the potential to improve electricity supply, conservation or demand management. Together these funds support the Green Energy Act's emphasis on creating green jobs and economic development.



Blue Jays mascot cheerleads Toronto school children as part of the spring-summer energy conservation campaign.

Community Challenge Day

The final event of the spring-summer energy conservation campaign was the Count Me In! Community Challenge Day on August 14, 2009. The Ontario-wide energy conservation competition included 83 municipalities representing 56 percent of the population. Kingston won for the greatest electricity consumption reduction that day by achieving a 7.8-percent drop in electricity, and Sioux Lookout won for the highest number of conservation pledges per capita of 11.44 percent. The winners were announced on August 19 at the annual conference of the Association of Municipalities of Ontario in Ottawa.

In 2009, the Conservation Fund continued to focus on initiatives that can significantly build the capability of consumers and service providers to reduce their demand for electricity. Funds were provided to conservation projects in a wide range of sectors, from low-income housing and consumer electronics to manufacturing facilities and retailers.

The Technology Development Fund sharpened its focus in 2009 on several priority areas in response to the Green Energy Act. These included high-efficiency lighting, advanced and integrated building controls and advanced cooling and refrigeration on the electricity demand side. On the electricity supply side, a key fund priority was technologies that will help integrate distributed sources of supply into the electricity system to support the deployment of renewable energy. To help create jobs, the economic development potential for Ontario of new technologies became an assessment criterion for funding projects.

New projects funded included a smart grid-enabled household appliance initiative, an innovative algae biomass industrial cogeneration system and a web-based commercial lighting field control demonstration.

Long-term conservation portfolio planning

The OPA continued to engage in planning for changes to codes and standards and for its long-term conservation portfolio. Codes and standards, along with pricing, are expected to account for a large percentage of long-term conservation gains.

As in the past, the OPA worked with a wide range of partners to achieve results in this area. Its activities included supporting the efforts of the Ministry of Energy and Infrastructure and the Ministry of Municipal Affairs and Housing to make changes in energy-efficiency codes for buildings and standards for electrical appliances and various kinds of equipment. This involved developing proposals for new standards for household appliances, which are not yet regulated.

Technology Development Fund supports leading-edge sustainable home

The OPA-sponsored Team North has created one of the most liveable, energy-efficient, solar-powered homes in the world. The North House placed fourth worldwide in the U.S. Department of Energy's 2009 Solar Decathlon. The OPA provided Team North with $125,000 in 2009 for rigorous product testing, monitoring and research to develop the house. The team is made up of students and faculty from the University of Waterloo, Ryerson University in Toronto and Simon Fraser University in Burnaby, B.C. The house produces twice as much energy as it consumes.

Another important focus was supporting the development of sustainable communities and integrated community energy plans. Work in this area involved several initiatives: helping to develop a community energy solutions roadmap released by the Council of Energy Ministers in August, co-funding a land use and energy mapping project with the Canadian Urban Institute to assist four communities in Ontario (see sidebar) and providing funding to four municipalities to develop policy to drive integrated community energy solutions. The OPA also participated in Quality Energy Systems of Tomorrow (QUEST). This collaborative network of representatives from industry, environmental groups, governments, academia and communities works to make Canada a leader in urban integrated energy systems (www.questcanada.org).

The OPA also completed residential and commercial market transformation strategies in 2009 to support the conservation portfolio development process and started to develop a strategy for the industrial sector.

A smart grid for Ontario

The Green Energy Act sets the framework for a smart grid to enable changes in electricity consumer behaviour, implementation of innovative technologies and connection of more renewable generation.

There is an important connection between achieving Ontario's conservation targets and developing a smart grid in the province. The two-way flow of electricity and information enabled through the smart grid will help fast-forward a culture of conservation. Customers will be able to receive timely information about electricity pricing and make informed decisions about their energy use.

Two key components for enabling conservation through the grid are smart meters and time-of-use pricing for residential and small business customers. Smart meters track how much electricity is being used at any given time. This, along with time-of-use electricity rates, allows customers to play a more active role in the electricity system by being better informed about prices and their use of electricity and therefore more able to manage their use and costs. Behavioural change will be triggered by a time-based price differential, as consumers are encouraged to shift their electricity usage from peak to mid-peak and off-peak times. Smart metering also makes frequent and detailed energy consumption information available to both customers and local distribution companies.

Community energy use mapping

The Canadian Urban Institute received $400,000 from the Conservation Fund to integrate energy planning and municipal land-use planning in an innovative project involving four Ontario municipalities. The communities will receive funding to undertake ene gy and land-use mapping to create an integrated plan for urban development. The project is expected to reduce energy demand and greenhouse gas emissions.

Energy monitoring and benchmarking in Ontario's 24 colleges

The Ontario Colleges Energy Conservation Secretariat project, completed in 2009, received Conservation Fund support of $250,000. This initiative helped to implement a real-time operating system for all 24 of Ontario's publicly funded colleges, as well as facility manager training and support for building retrofits. Conservation efforts since 2007 have led to annual savings of $2 million, with $6 million more in annual savings planned by 2010. Total funding of $335,000 over four years was provided for capability building and facility upgrades to reduce energy consumption.

More than three million residential smart meters were installed across Ontario by the end of 2009. One million Ontarians are expected to have time-of-use rates by the summer of 2010, and 3.6 million homes and small businesses will have them by mid-2011. The OPA expects that smart meters and time-of-use rates will deliver about 390 megawatts of peak demand reduction by 2027, with most of the savings occurring early in the planning period. They are also expected to be supporting elements of other conservation programs and the development of the smart grid.

The smart grid will enable the development and integration of innovative technologies, such as a mobile charge infrastructure to support electric vehicles and dedicated electricity storage to increase reliability of supply. It will serve as a platform for technological innovation to enhance conservation and energy efficiency.

The smart grid will also improve operation of the electricity grid, including facilitating the connection and operation of distributed generation and particularly the connection of more renewable energy. The OPA's Feed-in Tariff (FIT) Program, discussed on page 14, provides incentives for electricity consumers to become generators. This program promotes the expansion of distributed generation across the electricity system, while the smart grid will enable the connection of these local generating facilities.

The OPA and others are working to maximize the benefits of the smart grid for customers and operators through initiatives such as the Ontario Smart Grid Forum. The forum was launched in 2008 by the Independent Electricity System Operator, in collaboration with representatives from local distribution companies, to bring together leaders from across the sector (www.ieso.ca/smartgrid). In February 2009, the forum released a report, titled "Enabling Tomorrow's Electricity System." The report examined various aspects of smart grid technologies and how they should be deployed and integrated in the province. It called for a coordinated effort to increase the performance of the electricity system, develop economic opportunities and promote environmental sustainability through smart grid technologies.

Procuring Greener and Cleaner Electricity for Ontario

One of the most significant activities of the OPA in implementing the Green Energy Act in 2009 was the design and implementation of the Feed-in Tariff or FIT Program for the procurement of renewable energy supply, including wind, hydro, solar and bioenergy.

The OPA also procured cleaner sources of electricity such as natural gas-fired and renewable combined heat and power generation, as well as hydro-electricity through contracts with a number of existing projects.

The OPA's procurement activities continued to grow in 2009. As of December 31, 2009, the OPA had negotiated and/or competitively procured 50 contracts for 12,392 megawatts of new electricity supply. These ranged from projects for renewable energy resources to natural gas-fired generating facilities and combined heat and power projects, and included contracts with Bruce Power to refurbish four nuclear units. These 50 contracts represent a $15.3-billion investment in the Ontario electricity system since 2005.

As of December 31, 2009, 400 contracts for 1,017 megawatts were being managed through the Renewable Energy Standard Offer Program (RESOP). In total, there were contracts for 13,409 megawatts under OPA management, including 3,709 megawatts of renewable energy projects and 6,700 megawatts of clean energy supply (see Tables 2a and b). More than 1,300 megawatts of new renewable energy have been brought online since 2003. By the end of 2009, 25 percent of Ontario's installed capacity came from renewable energy generating facilities. Through the FIT Program and a consortium agreement signed in January 2010, another 2,500 megawatts are expected to come under contract in 2010. Options to transition from RESOP to the FIT Program were made available to more than 300 RESOP contract holders.

The number of megawatts under OPA contract management is planned to increase in 2010 by about 4,500 megawatts to more than 17,900 megawatts, and their contractual value will increase by $7 billion to nearly $22.3 billion – increases of 34 and 46 percent respectively. To handle these increases, and particularly the significant uptake of renewable energy through the FIT Program, the OPA worked to ensure that its contract management processes were efficient and effective.

Table 2a: Electricity Supply Capacity Under Contract
From 2005 to December 2009

Capacity in service (MW)*	Capacity under construction (MW)	Capacity in planning and permitting (MW)	Total capacity under contract (MW)
6,552	2,508	4,349	13,409

Table 2b: Electricity Supply Contracts, Capacity and Status: Details

Technology or contract type	Number of contracts	Total capacity under contract (MW)	Total capacity in service (MW)
Renewable energy (standard offer 10 MW and less)	400	1,017	188
Renewable energy (negotiated and competitively procured)	27	2,692	2,120
Natural gas	14	6,271	4,066
Combined heat and power	8	429	178
Nuclear	1	3,000	0

**MW = megawatts*

Feed-in Tariff Program

Following months of extensive stakeholder consultation, planning and the receipt of a government directive on September 23, the OPA launched North America's first comprehensive standard offer program for renewable electricity supply on October 1.

There were already more than 3,700 megawatts of renewable energy under contract with the OPA before the program launch period was over. This number is expected to nearly double in the immediate future as a result of the program. The first round of FIT Program projects is expected to generate more than $5 billion in green investments and jobs in Ontario and generate 2,500 megawatts of green energy. Once completed, the Bruce-to-Milton transmission line will enable another 1,500 megawatts of renewable energy to be brought into the system.

The FIT Program offers fixed prices under long-term contracts for energy generated from renewable sources, including bioenergy (biomass, biogas and landfill gas), on-shore and off-shore wind, solar photovoltaics and waterpower. Contracts are for a 20-year term, except for waterpower projects, which have 40-year contracts. The prices paid for electricity produced vary according to the renewable energy source used and the size of the project. Payments are designed to cover typical capital and operating costs and to provide a reasonable return on the investment over the term of the contract.

To encourage Aboriginal and community participation in the program, their projects are eligible to receive a payment in addition to the contract price. This payment is proportionate to the economic interest the Aboriginal or local community has in the project. These developers also pay reduced security fees.

The FIT Program is divided into two streams – FIT and microFIT. FIT is for projects generating more than 10 kilowatts of electricity; microFIT is for very small renewable power projects, such as a home or small business installation, generating 10 kilowatts or less of electricity. It also offers a simpler application and contracting process than in the FIT stream.

The response to the FIT Program has been tremendous. During the 60-day program launch period ending on November 30, more than 2,200 applications were received. These projects have the potential to generate about 8,000 megawatts of renewable energy. This is an early indication of the tremendous interest in green energy in Ontario. Conditional contract offers were made to 700 microFIT contracts in mid-December and over 450 more were made in January 2010. Contract offers for FIT applications received during the program launch period began in March of 2010.

More than 700 rooftop solar projects get green light in December

On December 16, the OPA made offers to 700 Ontarians to generate renewable electricity under its microFIT Program. The program encourages small-scale renewable energy projects of 10 kilowatts or less from a diverse range of producers, including homeowners, schools, farmers and small businesses. It is part of the broader FIT Program, one of the cornerstones of the Green Energy Act, that will support the creation of 50,000 direct and indirect green jobs in the province.

Portlands Energy Centre ahead of schedule and on budget

The Portlands Energy Centre opened ahead of schedule and on budget in April 2009. The $730-million plant is a high-efficiency, 550-megawatt, combined-cycle, natural gas-fuelled facility that can generate enough electricity to serve 500,000 homes. It is helping to meet the electricity needs of central Toronto.

The OPA has developed mechanisms to establish the order in which existing and approved transmission capacity will be assigned to FIT project proponents. For those projects that will need transmission capacity to be developed, FIT project interest will help to identify areas where the distribution and/or transmission system will need to be expanded or reinforced. An economic connection test will determine which transmission and distribution system expansions or reinforcements will move forward. These expansion projects will be reviewed and approved by appropriate regulatory authorities prior to construction.

In September 2009, the Ministry of Energy and Infrastructure asked Hydro One to begin development on a number of transmission and distribution projects across Ontario. The OPA is working with the Independent Electricity System Operator, transmitters and distributors within the province to prioritize where investments in transmission and distribution infrastructure are to be made.

Other major procurement activities

The OPA engaged in a number of other significant procurement activities in 2009.

Existing hydroelectric resources continued to be procured under ministerial directive through negotiations and standard offer contracts with existing facility owners and operators. All other procurement activities were accomplished through competitive processes.

Competitive procurements

Natural gas-fired generation

To address local area supply issues, a directive was issued to the OPA in August 2008 to procure approximately 850 megawatts of combined-cycle, natural gas-fired generation in the southwestern Greater Toronto Area. A competitive procurement was held in late 2008 and early 2009, in which four proponents were pre-qualified to submit proposals for the plant. In October 2009, the OPA signed a contract with TransCanada Energy Ltd. to design, build and operate a 900-megawatt electricity generating station in Oakville over a 20-year term to provide a new, cleaner source of electricity for the growing southwestern Greater Toronto Area. The natural gas power plant will maintain local supply reliability and replace the coal-fired Lakeview generating station, helping Ontario become the first jurisdiction in the world to remove coal from its electricity supply mix. It will also work in tandem with intermittent renewable electricity supply as this comes online. The plant is scheduled for commercial operation by the end of 2013. Emissions standards at the plant will be 80 percent stricter than what the Ministry of the Environment requires.

Also in 2009, three large natural gas-fired, combined-cycle plants – Goreway Station, Portlands Energy Centre and St. Clair Energy Centre – came into service, adding close to 2,000 megawatts of clean energy supply to the province.

Combined heat and power

The OPA currently has contracts with eight facilities for combined heat and power projects with a total generation capacity of 429 megawatts. These contracts were procured under two government directives.

The OPA received a directive in 2005 to procure up to 1,000 megawatts of high-efficiency combined heat and power, including industrial cogeneration projects and district energy projects. The initial phase was undertaken in 2006 and resulted in seven contracts totalling 414 megawatts. A second procurement process was launched in 2007. The request for proposals process concluded in April 2009 with no contracts being awarded, primarily due to an unfavourable economic climate for large-scale combined heat and power projects.

The OPA received a further directive to procure approximately 100 megawatts of combined heat and power for projects greater than 10 megawatts with renewable fuel. The procurement began in June 2008 and concluded in the summer of 2009. One contract was awarded for a 15-megawatt renewable-fuelled combined heat and power facility in Haig Township in the District of Algoma.

The OPA and St. Marys Paper Corporation have begun discussions to explore opportunities for a renewable cogeneration project at the company's facilities in Sault Ste. Marie. The OPA is also in discussions with AbitibiBowater regarding a renewable cogeneration project located at its Thunder Bay operations.

Combined heat and power is an efficient way to generate electricity and heat for nearby users, and the OPA will continue its efforts to procure more high-efficiency combined heat and power projects. The OPA is assessing how best to contract for the remaining capacity under the directives.

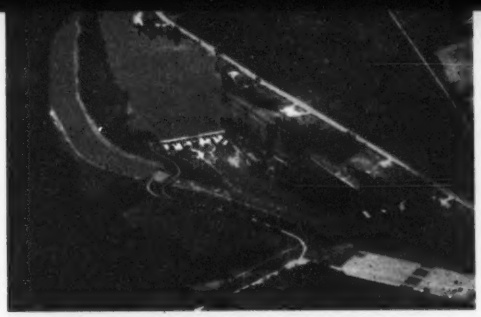
Renewable energy

In August 2007, the OPA was directed to procure 2,000 megawatts of renewable energy projects over 10 megawatts in size. The phased procurement process began in November 2007. In January 2009, the OPA awarded 20-year contracts for six wind power projects that are expected to create about 2,200 direct and indirect jobs. These projects will provide enough electricity for more than 120,000 homes and create just over 491 megawatts of new renewable generation. Three projects are in Chatham-Kent; the other three are in Essex, Prince Edward County and Thunder Bay respectively. All projects are expected to be in service by the end of 2012.

To support the government's objectives of procuring clean and efficient electricity generation and enhancing renewable generation and conservation, the OPA was directed in May to seek new contracts for hydroelectric generation facilities directly or indirectly connected to the grid controlled by the Independent Electricity System Operator but not currently owned by Ontario Power Generation.

Ontario solar plant to create 500 jobs

Canadian solar module maker Canadian Solar Inc. plans to establish a 200-megawatt manufacturing facility in Ontario. The plant will be completed in stages, with the first phase of operations expected to commence in 2010. The facility will create 500 jobs directly stimulated by the domestic content requirements of the FIT Program and will have sufficient capacity to supply electricity to 60,000 homes per year. The estimated cost of the plant is $24 million. Once completed, it will be one of the largest solar panel manufacturing facilities in North America.



Hydroelectric project reaches commercial operation

The eight-megawatt Trent Rapids Power Corporation Hydroelectric Station near Peterborough reached commercial operation at the end of 2009.

In response to this directive, the OPA developed the Hydroelectric Contract Initiative to negotiate contracts for qualified existing hydroelectric generation facilities. There are two streams: one for large facilities 10 megawatts and more, and one for smaller facilities under 10 megawatts. Large facilities individually negotiated with the OPA; smaller facilities have a standard form of contract with a fixed pricing offer. The OPA entered into contracts in December with two large hydroelectric operators, adding close to 1,000 megawatts of hydroelectric energy under contract with the OPA. These 20-year contracts covering 24 existing facilities will supply more than 3.1 million megawatt-hours of renewable energy annually to the province. The application process for smaller facilities commenced in December 2009 and the first contracts were awarded in January 2010.

The OPA continued the negotiation process with Ontario Power Generation for the extension and redevelopment of four plants on the Lower Mattagami River. The increased generation capacity of these facilities after extension and redevelopment work has been completed will be 450 megawatts.

Nuclear energy

The OPA is currently managing a contract with Bruce Power for the refurbishment of four nuclear units with a total capacity of 3,000 megawatts at its A Station. The OPA is also coordinating a working group, including the plant operators and the Ministry of Energy and Infrastructure, in developing a long-term plan for refurbishing the nuclear fleet.

Energy from waste

In December 2008, the OPA was directed to enter into negotiations with Durham and York regions for the procurement of electricity from a commercial waste facility. The production of electricity from this facility will be ancillary to its primary purpose, which is to reduce the need for landfilling by thermally treating residual wastes. Negotiations were completed in 2009 and the contract will be executed in 2010.

Renewable energy support programs

Working under ministerial directive, the OPA designed support programs to encourage Aboriginal communities, community groups and municipalities to take part in the FIT Program.

In 2010, the OPA will establish programs to facilitate the participation of Aboriginal and community groups in developing renewable energy generation facilities. A third program is designed to reimburse costs incurred by municipalities in developing these facilities. These support programs are expected to launch in the first half of 2010.

The Aboriginal Energy Partnerships Program consists of three parts: support for community energy plans to determine local interests, needs and opportunities for renewable energy development and conservation; funding support for a portion of the front-end "soft costs" associated with developing their projects; and support to establish an Aboriginal Renewable Energy Network to facilitate sharing of

knowledge and best practices relating to First Nation and Métis renewable energy projects. A related program, the Aboriginal Loan Guarantee Program, is delivered by the Ontario Financing Authority to help increase First Nation and Métis access to capital for renewable energy projects. The $250-million program includes both electricity generation and transmission projects.

The Community Energy Partnerships Program provides one-time financial assistance up to $200,000 in the form of grants to community groups interested in developing renewable energy generation projects that are more than 10 kilowatts and less than or equal to 10 megawatts in size.

The Municipal Renewable Energy Program reimburses municipalities for the direct costs associated with facilitating the development of renewable energy generation facilities.

Once launched, the OPA will review these programs at least once every two years and will report to the Minister with results and suggestions for improvement.

Five wind farms came online in 2009

The Swanton Line Wind Farm, a 10-megawatt facility in Chatham-Kent, reached commercial operation under RESOP, as did the 10-megawatt Bisnett Line Wind Farm, also near Swanton, and the 6.6-megawatt Proof Line Wind Farm near Forest, Ontario. Enbridge Ontario Wind Farm in Kincardine (181.5 megawatts) and Wolfe Island Wind Project (197.8 megawatts) also reached commercial operation in 2009.

Integrated Planning Solutions

Developing local integrated solutions

The OPA has identified several regions in the province where there may be electricity supply capacity and reliability issues.

In these areas, an integrated approach to planning is advocated to optimize the solution potential that can be achieved through conservation efforts, while at the same time considering any required infrastructure and generation needs. The OPA is working with local distribution companies, transmitters and local governments to enable the delivery of conservation programs and/or infrastructure projects in these areas.

This integrated approach was used to develop solutions in the Kitchener-Waterloo-Cambridge-Guelph area. Over the past few years, the OPA engaged local distribution companies, municipalities and stakeholders in the area in a broad discussion about maintaining and ensuring reliability of the local electricity supply. Planning for the greater Kitchener-Waterloo-Cambridge-Guelph area will continue in 2010. It will factor in recovery from the economic recession, conservation efforts and distributed generation developments, particularly those associated with the OPA's FIT Program for renewable electricity generation.

The Windsor-Essex area is another region in Ontario where there is a need to develop integrated solutions to address supply and reliability constraints. Following an extensive stakeholder engagement process in 2008 and 2009, the integrated solution proposed involves conservation, distributed generation, new transmission lines and a new transformer station near the Municipality of Leamington. Hydro One intends to file for approval to construct new transmission facilities in the area with the Ontario Energy Board by the end of 2010.

Long-term integrated system planning

Integrated power system planning is a core accountability of the OPA.

The primary planning focus in 2009 was implementing the Green Energy Act priorities, particularly transmission aspects of the FIT Program. Work in this area included developing information about transmission availability and communicating it to the sector, as well as developing options for expanding transmission.

The OPA continued to work closely with a range of stakeholders, including municipalities and First Nation and Métis communities, to develop consistent assumptions and plans related to local electricity consumption, distribution, infrastructure, conservation and opportunities for investment. These stakeholders will continue to play an important role in planning and developing projects to meet their electricity needs.

The OPA received a ministerial directive in September 2008 to review its Integrated Power System Plan with a view to accelerating the conservation targets and increasing the amount and diversity of renewable energy and distributed generation. The OPA was also directed to focus its review on improving transmission capacity in certain areas of the province to enable development of renewable energy, and on enhancing engagement with First Nation and Métis communities, including possible partnership opportunities in electricity generation and transmission. As a result of the directive, the oral hearing on the plan before the Ontario Energy Board was paused in late September 2008.

Since receiving the directive, the OPA has been completing its review of the plan, taking into consideration a number of changes, including those brought about by the Green Energy Act and the economic downturn.

Ontario is well on its way to eliminating coal from its supply mix by the end of 2014, and has already improved the electricity system's reliability and emission performance. Investments continue to be made in generation, conservation, transmission and to accelerate the incorporation of green energy. In addition to making extensive investments over the past five years, industry participants have increased their understanding of the evolving electricity system. This should enhance the planning process for the electricity system in the future.

The costs of the new infrastructure investments are starting to flow to customers through increased electricity prices. The OPA is communicating these changes and helping to promote a better understanding of emerging cost issues.

The OPA's power system planning process recognizes the broad range of uncertainties influencing electricity plans. It uses scenarios based on a range of assumptions to better understand their implications. In 2009, the OPA assessed the outlook for electricity demand and supply in light of changes in policy, as well as potential economic futures, to identify options for further consideration. These scenarios suggest that Ontario will need to keep certain options open to maintain flexibility across a range of potential futures and, when required, to make major strategic choices to remain competitive in its electricity services.

Long-term power system planning

Together with stakeholders, planners plan for the implementation of conservation, the development of renewable energy and other forms of generation, and transmission throughout the province. These needs are critical to the province's economy, prosperity and quality of life.

Engagement with First Nation and Métis Communities

A key initiative of the OPA is to work with First Nation and Métis communities as partners in conservation and overall energy planning, and to facilitate their participation in energy sector opportunities.

Throughout 2009, the OPA worked directly with First Nation and Métis communities on a range of initiatives, including long-term planning for the power system (the Integrated Power System Plan), system planning for remote communities not connected to the provincial electricity grid, opportunities to participate in renewable generation, conservation and energy efficiency, the Green Energy Act and the development of the FIT Program. The OPA is committed to ensuring these communities have access to the tools to participate in Ontario's green energy transformation and growing culture of conservation in a manner that complements their values and heritages. Success on all fronts depends on developing and maintaining a relationship of trust, cooperation and mutual respect with First Nation and Métis leaders and their communities.

Since December 2008, the OPA has undertaken an enhanced process of communication and engagement involving numerous meetings and information sessions with Aboriginal communities across Ontario. One important example of the positive results of these efforts is the way in which Aboriginal comments influenced the design of the FIT Program, particularly with respect to additional price incentives and reduced security payments for Aboriginal projects. The OPA is also working with communities through the Northwest Ontario Transmission Working Group to develop a plan to provide better service to remote communities. This includes short-term alternatives to reduce diesel consumption through conservation and small solar and wind projects, as well as solutions for the longer term.

The OPA continued to enter into new capacity-building agreements with First Nation and Métis organizations. These agreements are intended to assist them in building their capacity to participate in the long-term planning of Ontario's electricity system.

Conserve the Light gathering a great success

The OPA-sponsored gathering of First Nations and Métis communities from across Ontario was held in Thunder Bay in September 2009. The goal of the gathering was to help preserve Mother Earth through the use of traditional values and processes to encourage energy conservation. In preparation for the event, First Nation traditional and Christian Elders and Métis Senators met for two days of traditional ceremonies to develop the key conservation messages. This was the first meeting of First Nation Elders and Métis Senators in living memory. They delivered a message of inclusiveness, with particular emphasis on youth, and a comprehensive approach to conservation and the environment to the more than 200 political leaders and community members participating in the conference. The presentations focused on energy conservation successes, challenges and opportunities for Ontario's Aboriginal communities.

Early in 2009, capacity-building agreements were put in place with the Nishnawbe-Aski Nation, the Union of Ontario Indians (Anishinabek) and the Métis Nation of Ontario. Both the Métis Nation of Ontario and the Union of Ontario Indians completed their work under their agreements. Work under a similar capacity-building agreement with the Nishnawbe-Aski Nation was completed in the first quarter of 2010. The OPA is also working with Treaty 3 and the Association of Iroquois and Allied Indians to develop agreements.

The OPA engaged as well in a number of activities to promote conservation awareness and support conservation initiatives with First Nation and Métis communities. In September, the OPA worked in partnership with First Nation and Métis organizations to hold a second Conserve the Light conference on conservation in Thunder Bay (see sidebar on page 20). Elders from First Nation and Métis communities gathered in a unique forum to provide shared guidance on conservation practices to the more than 200 First Nation and Métis leaders. And progress has been made over the past two years with the Energy Efficiency and Conservation Measures Program for Aboriginal communities. This program was developed with the guidance and advice of First Nation and Métis Elders.

As part of the Aboriginal Energy Partnerships Program, the OPA will launch, in the second quarter of 2010, a website developed for the Aboriginal Renewable Energy Network to support capacity building and participation in renewable energy opportunities through the FIT and microFIT programs. In addition, an advisory committee, consisting of First Nation and Métis representatives, began crafting criteria for key elements of the program early in 2010.

Stakeholder Engagement

In 2009, the OPA continued to engage with a broad array of stakeholders in Ontario's electricity sector through consultation and public communication and engagement activities.

Stakeholder involvement remains a central part of virtually all of the OPA's initiatives and activities. Particular areas of focus for engagement, communication and public outreach were areas with local supply constraints, procurements including the design of the FIT Program and the OPA's conservation program initiatives.

Stakeholder engagement activities continued in two areas facing reliability issues: the northern York Region and southwestern Greater Toronto Area. Activities included public advertising, meetings with local community groups and individuals and public information sessions. The OPA will continue to provide support in these areas as solutions are implemented.

Holiday greeting card contest

A student from William G. Davis Public School in Windsor won the OPA's 2009 holiday greeting card contest that called for designs illustrating awareness of the wise use of electricity. The card was used as the OPA's 2009 holiday greeting card. The prize was a trophy, a $200 honorarium and a 64-inch SMART interactive white board for the student's classroom. The top 12 designs were exhibited at The Children's Museum in Kitchener-Waterloo in December.

The OPA worked with all interested parties in its standard procurements for combined heat and power and in its new standard offer programs for renewable energy. Stakeholder feedback provided important input into the development of requests for expressions of interest, requests for proposals and contracts for standard procurements, and was essential in the design of the FIT Program.

A key principle in the development of the FIT Program was to provide a high level of communication and interaction with stakeholders. Consultation on the program was the most extensive ever undertaken by the OPA. Multiple events were planned for each stage of the development of the program to provide ample opportunity for input and discussion. Valuable input was obtained in all of these sessions, which had a combined total of 8,000 participants.

Following the launch of the program, the OPA continued to meet with interested parties across the province on a regular basis to discuss program issues. To the extent possible, events were offered in a variety of formats. For example, many in-person sessions were simultaneously broadcast over the Internet and telephone, offering those unable to attend in person the opportunity to view the presentations and to ask questions.

In conservation, the OPA continued to engage stakeholders, including local distribution companies, industry and trade organizations, environmental groups and other industry participants, to assist in developing and refining program initiatives. One facet of this work involved exploring ways to improve the conservation programs currently offered in conjunction with local distribution companies. Full-day sessions were held to discuss the Every Kilowatt Counts Power Savings Blitz and Great Refrigerator Roundup initiatives. They featured best-practice presentations by local distribution companies and brainstorming sessions on how to structure and deliver the initiatives.

Many communication channels were used to raise awareness of the OPA's mandate, initiatives and proposed plans and programs. For example, webcasts and teleconferences, website communications, workshops, print and electronic media, advertising, OPA publications including newsletters and brochures, as well as in-person meetings, executive speeches and special advisory groups were all used to communicate. OPA executives gave many presentations to a broad range of audiences across Ontario, from business and industry leaders to government representatives, communities and consumer and environmental organizations. And OPA staff from across the organization made numerous presentations at seminars, symposiums, conferences, workshops and other venues.

Throughout its stakeholder engagement activities, the OPA strove to follow its guiding principles of transparency, accountability, collaboration and flexibility.

Ontario leads Canada in windpower

Ontario is Canada's leader in wind power, with more than 680 turbines at the end of 2009 – producing enough energy to meet the average electricity needs of over 300,000 homes. Wind farms Melancthon I and II in Shelburne (199.5 megawatts), Wolfe Island (197.8 megawatts), Prince in Sault Ste. Marie (189 megawatts) and Enbridge Ontario in Kincardine (181.5 megawatts), with their combined total of 767.8 megawatts, represent more than 23 percent of the overall installed wind capacity in Canada. In total, there were almost 1,200 megawatts of wind and over 150 solar projects in Ontario at the end of the year. Renewable energy generating facilities accounted for about 25 percent – close to 9,000 megawatts – of Ontario's installed capacity.

Electricity Sector Development

In 2009, the OPA continued to engage with the Ministry of Energy and Infrastructure, the Ontario Energy Board, the Independent Electricity System Operator, Hydro One and other stakeholders to identify and help resolve potential policy and project-specific barriers to the development of transmission, adoption of conservation, enhancement of distributed generation and integration of renewable energy supply.

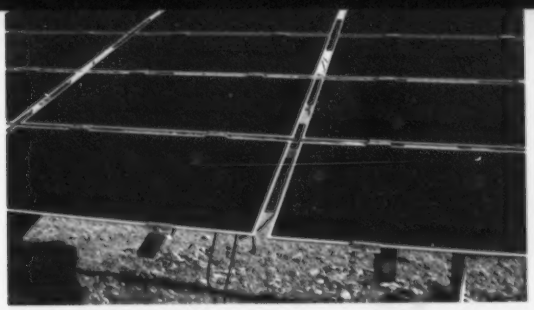
To support the implementation of the Green Energy Act and in particular the FIT Program, the OPA worked with stakeholders to identify barriers to developing renewable distributed generation facilities, including supporting ways to streamline the regulatory framework to enable such generation. Changes were made by the Ontario Energy Board to existing codes and guidelines to ensure compatibility with these new programs and the government's energy policy and to enable the smart grid. Key among these were changes to the Distribution System Code, the Transmission System Code and the Retail Settlement Code. The OPA supported work in all of these areas and will remain active as they continue to evolve in 2010.

The OPA also investigated the potential for other distributed generation in urban and supply-constrained areas. Results of a study by the OPA and Toronto Hydro to investigate the potential of distributed generation in central and downtown Toronto were published in 2009. This was the first study of this magnitude in North America. The OPA also commissioned a report on district energy to help determine what role the OPA should take in this area. This report was completed early in 2010.

The OPA continued to participate in and provide input into regulatory proceedings of the Ontario Energy Board. These included distribution plans and other standard regulatory work such as rate applications.

The OPA maintained its involvement with sector development issues, including working with the Independent Electricity System Operator and other industry stakeholders to explore ongoing electricity pricing issues, such as the drivers and effects of the global adjustment mechanism. Electricity prices are expected to increase through this mechanism, as new generation and conservation resources come into service and as a result of implementing the Green Energy Act and the FIT Program.

The OPA formed a climate change committee in 2009 to monitor greenhouse gas activities in Ontario and surrounding jurisdictions to determine their impacts on the OPA and the province's electricity sector. Discussions have been held with the Ministry of Energy and Infrastructure, as well as with the Ministry of the Environment, which is taking the lead in developing legislation for a potential cap-and-trade regime and in representing Ontario in various initiatives on greenhouse gases. Although a cap-and-trade regime and an associated price for carbon are not yet fully developed, the OPA is starting to factor the potential impact of carbon pricing into its planning studies.



Solar panels at First Light Solar Park.

Canada's largest solar farms operating in Ontario

Three large solar projects came online in 2009, making Ontario a solar power leader in North America.

Sarnia Solar Project
This 20-megawatt project, owned by Enbridge and First Solar Inc., is set to expand to 80 megawatts by 2010. The total system cost of the expansion is approximately $300 million. When completed, the project is expected to be one of the largest solar photovoltaic facilities in North America.

First Light Solar Park
Located in Stone Mills, near Napanee, First Light Solar Park is a joint venture between SkyPower Corp. and SunEdison Canada. More than 126,000 solar panels spanning 90 acres are expected to generate more than 10 million kilowatt-hours of renewable electricity in the first year – enough to power 1,000 households.

Arnprior Solar Project
Located near Ottawa, the first 10 megawatts of EDF EN Canada's Arnprior Solar Project came online at the end of 2009. The remaining 10 megawatts came online in January 2010. This is currently the second largest solar farm in Canada.

Green Energy Action: Next Steps

In its fifth year of operation, the OPA achieved a number of important goals and passed several key milestones. Measurable progress was made toward realizing Ontario's goal of a greener, sustainable electricity future.

In 2009, the OPA:

- worked with partners in the electricity sector to implement the Green Energy Act and to support the goal of creating 50,000 green jobs for Ontarians
- continued to work toward the second interim conservation target of a 1,350-megawatt peak demand reduction by the end of 2010, following achievement of a 387-megawatt reduction in 2008
- partnered with Ontario's local distribution companies to deliver conservation programs to electricity customers in every sector
- exceeded the 13,000-megawatt mark for contracts for new electricity supply, including more than 3,700 megawatts of renewable energy and 6,700 megawatts of clean energy supply
- successfully launched the FIT and microFIT programs for renewable energy generation
- worked to develop local integrated solutions in supply-constrained areas, including procurement of a new natural gas-fired generation plant in the southwestern Greater Toronto Area
- reviewed its long-term power system plan and used scenario-based planning
- enhanced its consultation process with First Nation and Métis communities to facilitate their participation in renewable energy development opportunities
- was involved in several key initiatives to develop Ontario's electricity sector for the benefit of all Ontarians.

While progress has been made toward ensuring a reliable and sustainable supply of electricity for Ontario, much remains to be accomplished. In 2010, the OPA's key activities will be to:

- continue to assist in the implementation of the Green Energy Act by promoting conservation and renewable energy in Ontario and supporting the creation of green jobs
- work toward meeting the second interim conservation target and release verified 2009 OPA conservation results
- continue to provide, in partnership with local distribution companies, a robust portfolio of conservation programs to all Ontarians that delivers electricity savings, contributes to peak demand reduction and raises awareness of the value of conservation
- increase the capacity of those working in the conservation sector, particularly program delivery agents such as local distribution companies, the supply chain and other influencers and customers
- continue to identify and support the implementation of codes and standards for energy efficiency and to remove barriers to conservation
- continue to procure renewable energy through the FIT and microFIT programs and to ensure that projects maximize available transmission system capacity
- launch enabling funds for the FIT Program for Aboriginal communities, community groups and municipalities
- continue to selectively procure combined heat and power and start to procure selective clean energy projects to meet the megawatt targets set out in government directives

- ensure that procurements are as efficient and effective as possible and develop new and improved mechanisms to procure different types of renewable and clean energy resources
- continue to develop solutions for areas facing electricity supply constraints, such as Kitchener-Waterloo-Cambridge-Guelph and Windsor-Essex, including identifying and supporting conservation opportunities in these areas
- continue to work on the solutions being implemented in the northern York Region and southwestern Greater Toronto Area
- maintain an updated power system plan to support the continuing development of the electricity system
- continue to engage in extensive consultation with First Nation and Métis communities on power system planning, conservation and renewable generation development opportunities, and to consider Aboriginal partnership opportunities in the generation and transmission of electricity, as well as put in place capacity-building agreements to increase their ability to participate in the province's electricity future
- work with government and other agencies to plan for and examine options to address the role of non-utility generators in Ontario's electricity sector after the expiry of their contracts with the Ontario Electricity Financial Corporation commencing in 2011
- develop a comprehensive assessment of barriers to distributed generation, including renewable supply
- develop an understanding of and examine options to address the impacts of potential carbon mitigation policies, including a proposed cap-and-trade system
- continue to identify alternative allocation methods to mitigate the effects of a rising global adjustment mechanism on electricity customers.

As in each of the previous five years, the OPA's activities in 2010 will maintain their core focus of serving the interests of Ontario's electricity consumers.

Vision

Leading Ontario in the development of North America's most reliable, cost-effective and sustainable electricity system.

Mission

Together with our partners, we ensure that electricity needs are met for the benefit of Ontario both now and in the future. We plan and procure electricity supply from diverse resources and facilitate the measures needed to achieve ambitious conservation targets.

Guiding Principles

Transparency: We carry out our work with openness and integrity.

- Our processes and outcomes are open and clear to both internal and external stakeholders.
- We treat our business partners with fairness and integrity.
- We strive to earn the trust and respect of all those with whom we deal.
- Our communications both internally and externally are clear, candid, open and reliable.

Accountability: We take responsibility for our actions.

- We carry out our responsibilities fairly and with integrity.
- We can be held accountable for our decisions.

Collaboration: We work together toward common goals.

- We combine our strengths to achieve our goals.
- We use our internal and external resources as effectively and efficiently as possible.
- We encourage and reward the contributions of everyone on the team, communicating and celebrating our successes clearly.

Flexibility: We adapt quickly and effectively to changing circumstances.

- We evaluate circumstances objectively and understand the need to respond to changes in our environment.
- We are able to alter our course when and where needed.
- We balance short-term needs with our long-term goals.

Management's Discussion & Analysis

The following is a discussion of the operating results and financial position of the Ontario Power Authority (OPA) for the year ended December 31, 2009. This analysis should be read in conjunction with the detailed financial statements and notes, which have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

Financial Review – Leading the Way

In 2009, the OPA responded quickly to the Ontario government's passing of the Green Energy Act with the development and launch of the Feed-in Tariff (FIT) Program – the first of its kind in North America.

Revenues

The OPA has three different sources of revenue:

- Fees: an Ontario Energy Board (OEB)-approved rate that is charged to Ontario electricity consumers on a consumption basis. Revenue resulting from this consumer fee is designed to recover the OPA's operating budget, allowing the OPA to achieve its mandate. The fee and its components are reviewed and approved by the OEB annually through a regulatory proceeding.
- Registration fees: an administrative charge on OPA procurements.
- Interest revenue: funds earned from management of the OPA's cash balances.

In 2009, total revenue increased to $66.6 million from $53.9 million in 2008. This was primarily due to an increase in revenue from fees, which was directly related to disposition of retailer settlement deferral accounts during the year.

Expenses

Figure 1A: 2009 and 2008 Operating Expenses by Expense Category

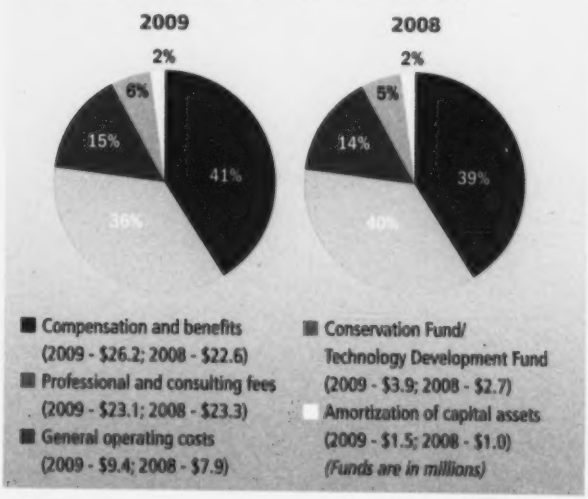


Table 1A: 2009 versus 2008 Operating Expenses

OPA Operating Expenses (in millions)	2009 Actual	2008 Actual	Change 2009 from 2008
Compensation and benefits	$26.2	$22.6	$3.6
Professional and consulting	23.1	23.3	(0.2)
Conservation and Technology Development Funds	3.9	2.7	1.2
General operating costs	9.4	7.9	1.5
Amortization of capital assets	1.5	1.0	0.5
Total	**$64.1**	**$57.5**	**$6.6**

The OPA met its 2009 budget targets and will exercise restraint in 2010 due to the nature of the current economy in Ontario. Expenditures in 2010 are expected to remain flat in comparison with 2009 expenses.

Figure 1B: 2009 and 2008 Operating Expenses and Program Costs

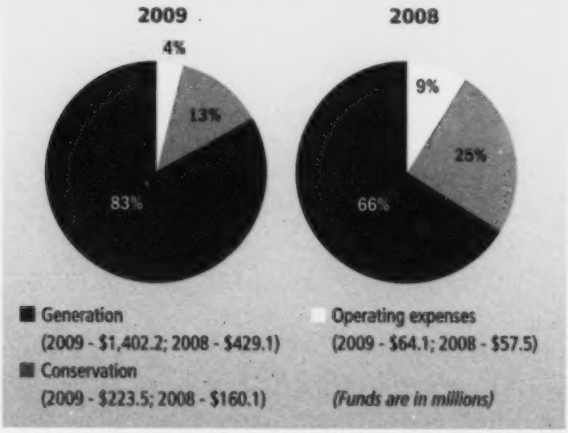


Table 1B: 2009 versus 2008 Operating Expenses and Program costs

OPA Expenses (in millions)	2009 Actual	2008 Actual	Change 2009 from 2008
Operating expenses	$64.1	$57.5	$6.6
Conservation	223.5	160.1	63.4
Generation	1,402.2	429.1	973.1

For 2009, the OPA's operating expenses decreased to four percent of overall spending, including generation and conservation programs. Investments in conservation programs increased during the year by 40 percent. Spending on generation also increased due to new resources coming online and from increased payments to generators for the settlement of the difference between the hourly Ontario energy price (HOEP) and the generator contract prices.

The HOEP is the hourly price charged to local distribution companies (LDCs), other non-dispatchable loads and self-scheduling generators. The HOEP becomes the basis of the commodity price in the retail electricity market for customers that receive their electricity from an LDC. Customers who have contracts with licensed retailers are charged their agreed-upon contract price.

Compensation and Benefits

A significant component of OPA expenses is related to the employment of highly qualified professionals who carry out the mandate of the organization. Costs in this category include employee salaries, pensions and benefits. Total employment costs for 2009 were $26.2 million. In May 2009, the Ontario government passed the Green Energy Act mandating the OPA to introduce such programs as the FIT Program for renewable energy, as well as to reconfigure its existing conservation programs and services. This significantly expanded scope was the principal driver for staff increases during the year, resulting in a year-over-year increase of $3.6 million.

Professional and Consulting

This category captures the costs of audit and legal services, as well as stakeholder consultations and other external professional services required by the organization. Actual 2009 expenses were slightly lower than in 2008, in spite of the 2009 changes to the OPA resulting from the Green Energy Act, as services were brought in-house to the extent possible.

Significant activities undertaken in 2009 were the development and launch of the FIT Program, negotiation of "early mover" contracts, further development of the OPA's programs for First Nation and Métis communities and expansion of the OPA's Energy Conservation Week initiative. The OPA's expenses for compensation and benefits rose due to its increased mandate. Professional and consulting expenses remained at the same level, reflecting the OPA's policy of making greater use of internal staffing in carrying out its mandate and of reducing its use of external consultants.

Management's Discussion & Analysis

The following is a discussion of the operating results and financial position of the Ontario Power Authority (OPA) for the year ended December 31, 2009. This analysis should be read in conjunction with the detailed financial statements and notes, which have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

Financial Review – Leading the Way

In 2009, the OPA responded quickly to the Ontario government's passing of the Green Energy Act with the development and launch of the Feed-in Tariff (FIT) Program – the first of its kind in North America.

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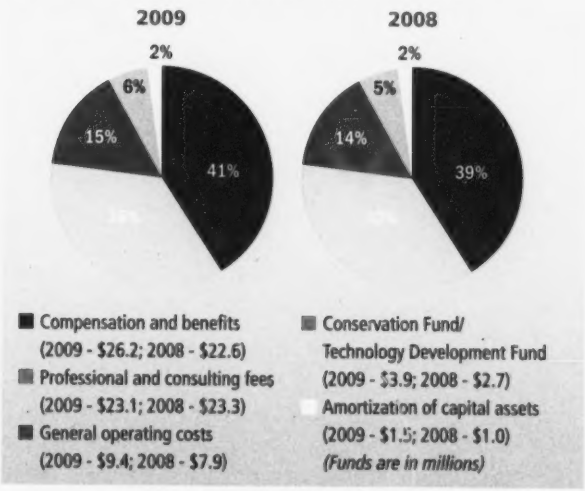

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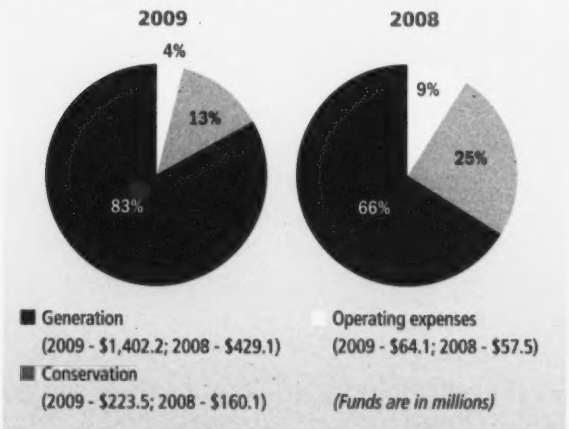

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The formation of the new First Nation and Métis relations department is in response to recommendations received from Aboriginal groups. It recognizes the important role that First Nation and Métis communities have in the planning and development of renewable generation, transmission and conservation within Ontario's electricity system.
– Colin Andersen, Chief Executive Officer

General Operating Costs

This category of expense includes indirect costs required to carry out the OPA's mandate. The principal items in this category are conference fees, meeting costs, travel, communications, publications, office facilities and information systems costs.

Year-over-year spending increased by $1.5 million. This was due to the OPA's engagement in activities designed to further its conservation message and to an increase in software licence expenses for applications supporting power system planning activities and financial management and planning.

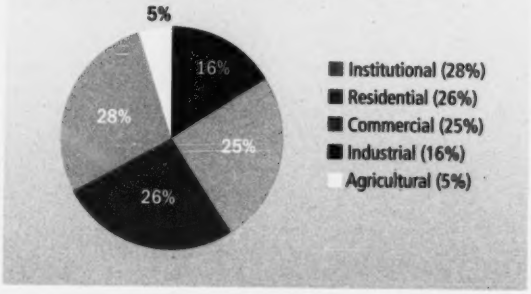
Conservation Fund and Technology Development Fund

The key purposes of the OPA's Conservation Fund and Technology Development Fund are to support innovative approaches to conservation, build market capability and accelerate the commercialization of emerging technologies.

In 2009, the OPA incurred expenditures of $3.9 million for 44 projects – 28 Conservation Fund projects and 16 Technology Development Fund projects – some of which began in 2006.

The Conservation Fund was created in 2005 to support the development of conservation programs. The review process for this fund has always been managed internally. In 2009, the Conservation Fund provided $3.1 million for 13 conservation projects in a wide range of categories, from low-income housing and consumer electronics to manufacturing facilities and retailers. These projects leveraged an additional $4.8 million in external funding.

Figure 2: Conservation Fund Projects Funded from 2005 to 2009 by Sector



Since its inception, the fund has provided support to a total of 81 projects receiving $11.7 million and leveraging another $20 million in support from external sources. The projects funded to date by sector are shown in Figure 2. More information on the Conservation Fund, including the projects it has funded and how to apply for funding, is available on the OPA website at www.powerauthority.on.ca/cfund.

The Technology Development Fund was created in 2006 to support the development and commercialization of emerging electricity supply or conservation technologies. The application process gives applicants three ways to access the fund: through the OPA directly, through the Ontario Centres of Excellence – Centre for Energy, or through the Centre for Energy Advancement through Technological Innovation. In 2009, nine of the 11 projects awarded funding were recruited directly through the OPA, with the remaining projects recruited through the other two agencies.

Calls for proposals were made twice in 2009 for each fund through a competitive process. In the first stage of each call, expressions of interest were rigorously screened by a business and technical review

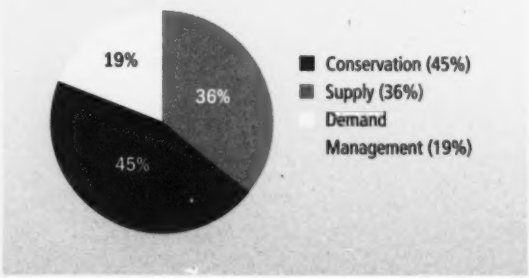
committee. If approved, applicants were then invited to submit full proposals. The second stage involved an additional business and technical review by the committee, which is responsible for making funding recommendations to the OPA's Grant Award Committee. This committee consists of the OPA's chief executive officer as chair, the vice-president of conservation and one reviewer from outside the energy sector.

In 2009, the Technology Development Fund provided a total of $2.1 million for 11 new projects, leveraging an additional $13 million from other sources. These projects included a smart grid-enabled household appliance initiative and a web-based commercial lighting field control demonstration.

Since its inception, the Technology Development Fund has provided 40 projects with a total of $5 million, leveraging an additional $45.2 million in external contributions. Funded projects can last as long as 36 months, and expenses can be incurred several years after a project has been selected.

The composition of the technologies in the Technology Development Fund portfolio to date is shown in Figure 3. More information on the fund, including the projects funded and how to apply, is available at www.powerauthority.on.ca/tdfund.

Figure 3: Technology Development Fund Projects Funded from 2006 to 2009 by Type



Consistent with the Green Energy Act's emphasis on conservation, the OPA is focusing on projects related to high-efficiency lighting, advanced and integrated controls and advanced cooling and refrigeration through its Conservation Fund. These include a smart dryer that will allow the homeowner to remotely operate it and monitor its electricity use.

Amortization of Capital Assets

The OPA's capital assets consist primarily of furniture and fixtures, computer hardware and software, telephones and audio-visual equipment. The 2009 increase in amortization is directly related to the information technology software and development costs needed to support power system planning and conservation information management initiatives. Additional leasehold improvements due to the increase in staff during the year were another component of the increase.

All assets are amortized on a straight-line basis over their estimated useful life, except for leasehold improvements, which are amortized over the remaining term of the lease. Useful life varies by asset class, as outlined in note 2 of the financial statements.

Financial Assessment – Our Journey So Far

Assets

Current Assets

The balances that drive current assets are affected by changes in the regulated price plan (RPP) balance, estimated amounts for electricity procurements and conservation costs.

Current assets in 2009 increased by $102.7 million, due to an increase in the accounts receivable balance of $133 million. OPA accounts receivable are influenced by activity in two areas: receivable amounts from the Independent Electricity System Operator (IESO) for electricity payments and recoverable costs related to OPA-funded conservation programs.

The OPA purchases electricity to ensure an adequate and reliable supply for Ontario consumers. These payments are recovered from electricity consumers in the following month through the IESO. Unpaid amounts at the end of the year are recorded as accounts receivable and recovered from the IESO. Recoverable and unpaid amounts from the IESO increased in 2009 by $108.1 million compared to 2008 as a result of market conditions and an increase in electricity procurements throughout the year.

The OPA also encourages electricity conservation and improvements in the efficient use of electricity through conservation programs. Payments related to these programs are recovered in the following month from electricity consumers through the IESO. Conservation charges increased by $25 million in 2009 as a result of an increase in OPA-funded conservation programs.

The increase in 2009 current assets is offset by a $30.1 million decrease in cash and cash equivalents at year-end. The decrease in the cash balance is driven by a corresponding decrease in the RPP liability balance at the end of the year.

Regulatory Assets

Regulatory assets are made up of the net balances in the retailer settlement deferral accounts. To provide greater transparency of the OPA's ongoing costs of operations and to reflect the flow-through nature of this transfer, the activities and balances in the RPP, retailer settlement deferral accounts and government procurements are presented on the OPA's balance sheet as "regulatory assets" and "regulatory liabilities."

Retailer Settlement Deferral Accounts

The OPA has a legislated responsibility to fund and track the assets and liabilities arising from retailers' contractual obligations that existed prior to electricity prices being frozen effective November 11, 2002. This duty applies to the OPA and retailers that must settle differences between the HOEP and the contract price for each retailer contract. When the HOEP is less than the contract price, the OPA pays the retailers and records a regulatory asset for the difference. If the HOEP is greater than the contract price, the OPA receives payments from the retailers and records a regulatory liability.

In 2009, the HOEP continued to decline, creating a regulatory asset of $0.4 million receivable from electricity consumers.

As the contracts that the retailer settlement accounts relate to have now largely expired, the OEB has approved the OPA's amortization of the remaining balances over the three-year period from 2009 to 2011. Amortization charges for 2009 totalling $14.3 million further reduced the balance in the retailer settlement deferral accounts.

The OPA recovered $14.3 million in retailer settlement amounts during 2009 by way of OEB-approved fee revenues. It will continue to recover the remaining retailer balances in 2010 and 2011 through its annual revenue requirement submission.

These changes decreased the total amounts collectable from the electricity market to $29.5 million at the end of 2009 from $43.2 million at the end of 2008.

Government Deferral Account

Expenses incurred by the provincial government related to provincial interties for electricity procurements are transferred to the OPA and recorded as regulatory assets. The OPA requests recovery of the cost of the items recorded as regulatory assets in the annual revenue requirement review at the OEB.

In 2008, the balance in the government deferral account was $1.4 million. In its 2009 revenue requirement submission to the OEB, the OPA requested recovery of the September 2009 balance of $1.3 million over the 12 months of 2009. To reflect the recovery of this amount, the OPA began amortizing this balance during 2009. At the end of the year, a total of $1.3 million was amortized, thereby depleting the 2008 balance submitted in the revenue requirement. In its 2010 revenue requirement submission, the OPA requested recovery of the remaining 2008 balance of $0.1 million.

In 2009, the OPA received additional transfer costs from the provincial government, bringing the government procurement balance to $0.2 million at the end of 2009.

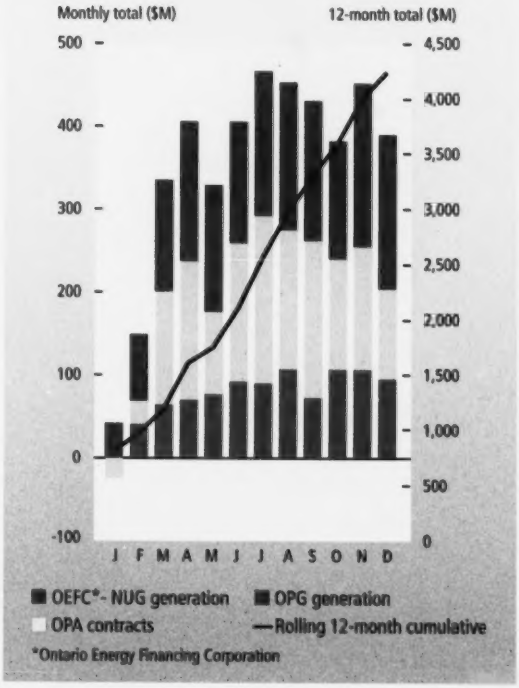
Global Adjustment Account

The OPA has a legislated responsibility to record transactions that flow through the global adjustment mechanism. To meet this requirement, the OPA records the cash flows related to procurement contracts held, managed or under the responsibility of the OPA. This includes contracts associated with the Renewable Energy Standard Offer Program, generation procurement, conservation, demand response, non-utility generators, certain prescribed Ontario Power Generation hydroelectric generation and nuclear generation.

The account is settled monthly; however, the settlement process for OPA contracts requires an estimate of the balance owing. The variance between the actual amount and estimate is adjusted in the following month's settlement. A variance existed at December 31, 2009, of $173.3 million, which is classified as a receivable for reporting purposes. As of December 31, 2009, the global adjustment account had a zero balance.

Figure 4 highlights OPA cash flows from the global adjustment mechanism for the 12-month period ending December 31, 2009. Positive values in Figure 4 represent charges to customers, while negative values indicate customer credits.

Figure 4: OPA Cash Flows from the Global Adjustment Mechanism in 2009



Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued liabilities include the accrual of electricity market settlements that are paid in the following month. Year-to-year changes in these accounts are related to differences between the amounts claimed in the current month compared to amounts paid in the following month.

The OPA also records current liabilities related to contract deposits received from renewable energy supply and demand response contractors. Performance securities are obtained from these suppliers at the beginning of each project and are repaid once the contractor has achieved commercial operation according to the terms of the contract. These amounts are recorded as current liabilities since they can be replaced with a letter of credit from the contractor at any time.

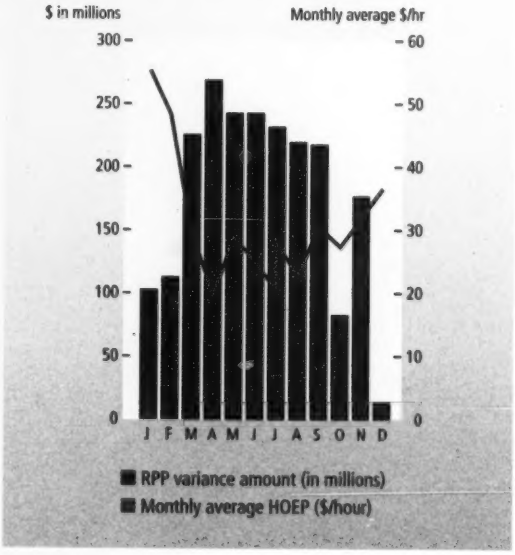
Contract deposits increased by $35.3 million in 2009 due to an increase in energy contracts during the year. This is largely related to the launch of the FIT Program.

Regulated Price Plan

Fluctuations in the RPP variance account are driven by differences between the HOEP paid to producers and the regulated price charged to Ontario consumers. Beginning in early 2009, the combination of a higher hourly price and a lower set regulated price caused the liability balance to decrease throughout 2009, resulting in a balance of $14.1 million at year-end.

Figure 5 demonstrates the relationship between the RPP variance amounts in relation to the monthly average HOEP rate for 2009. Additional information on the RPP variance amount can be found on the OEB website under Industry, Regulatory Proceedings, Policy Initiatives and Consultations, and then searching under the topic Regulated Price Plan in the project listing for the monthly variance explanation.

Figure 5: RPP Variance Amount Versus Average HOEP for 2009



Net Assets

Net assets include amounts invested in capital assets, internally restricted Conservation Fund and Technology Development Fund amounts and the accumulated balance of the excess or deficiency of revenues less expenses.

Table 2: Total Net Assets from 2007 to 2009

Net Assets (in millions)	2009	2008	2007
Internally restricted Conservation Fund and Technology Development Fund	$ 6.7	$ 6.0	$ 4.3
Invested in capital assets	7.7	5.5	5.0
Accumulated operating surplus	(16.0)	0.5	6.9
Total Net Assets	**$ (1.6)**	**$12.0**	**$16.2**

Total net assets decreased by $13.6 million in 2009 due to expenses in excess of revenues. The OPA planned for revenues in 2009 to be less than its budgeted expenditures to use up an existing surplus balance carried forward from prior years. This increase was offset by a $2.9-million combined increase in capital asset investments and internally restricted fund amounts at year-end.

The OPA's investment in capital assets depends on the number of staff employed at the OPA and the ongoing need for improved information systems. In 2009, total OPA investment in capital assets grew by $3.7 million, offset by amortization of capital assets of $1.5 million. The increase is a direct result of the continuing growth of the organization. There was an overall increase in office space and furniture additions in 2009 related to the OPA's new responsibilities under the Green Energy Act. The development and implementation of additional information technology software for power system planning and conservation information management also increased the OPA's investment in capital assets during 2009.

The internally restricted funds represent amounts committed to approved projects under the Conservation Fund and the Technology Development Fund.

This balance is gradually depleted over time as the approved projects incur expenses. The 2009 balance for internally restricted funds increased by $0.6 million from 2008, with a balance at the end of the year of $6.7 million.

In the 2009 OEB-approved revenue requirement submission, the OPA intentionally requested lower fee revenues in excess of budgeted expenditures to use up the existing surplus balances carried forward from prior years. The statement of operations in this year therefore has an operating deficit of $16 million, resulting in the substantial decrease in the accumulated operating surplus balance from 2007 to 2009 shown in Table 2.

Liquidity and Cash Flows

The OPA's financing requirements are mainly short-term and are primarily used to fund the RPP and retailer settlement deferral account balances. The aggregate of the account balances fluctuates monthly and can move to either a credit or a debit position. The OPA has a $975-million line of credit with the Province of Ontario to fund the fluctuations. As of December 31, 2009, the line of credit was unused. The line of credit was renewed in 2006 for a four-year period from January 1, 2007, to December 31, 2010.

To support this line of credit and provide a measure of the OPA's creditworthiness to counterparties, the OPA engages the rating services of the Dominion Bond Rating Service Inc. (DBRS) and Moody's Investors Service Inc. (Moody's). DBRS changed the debt rating for the OPA on October 22, 2009, while Moody's confirmed its rating on June 12, 2009. Following the changes in credit rating for the Province of Ontario, on June 3, 2009, DBRS changed the trend for the OPA from stable to negative, and on October 22, 2009, it changed the issuer rating from AA (low) to A (high) with a stable trend. Moody's did not change the OPA's rating in 2009, keeping it at Aa1. The OPA's credit rating remains rated as investor grade by both Moody's and DBRS (see Table 3).

Table 3: Liquidity

Rating Agency	Year	Rating	Rating Action	Trend
Dominion Bond Rating Service Inc. (DBRS)	2009	A (high)	Confirmed	Stable
	2008	AA (low)	Confirmed	Stable
Moody's Investors Service Inc. (Moody's)	2009	Aa1	Confirmed	Stable
	2008	Aa1	Confirmed	Stable

These credit ratings are currently used by parties that the OPA contracts with to obtain project financing. Although the OPA's current ratings are high enough to obtain financing at low rates, further deterioration of the credit ratings may make it more difficult for these parties to obtain financing at competitive rates. The OPA's rating is based largely on the rating of the province, since the OPA is a government agency and receives its powers under provincial legislation and regulation. The OPA's rating is maintained at one category lower than the provincial rating.

Cash Flow

Overall cash flows during 2009 were negative $30.1 million, resulting in a balance of $19.9 million at the end of 2009. Cash provided by operating activities for the year ended December 31, 2009, was $24.9 million, compared to negative $17.6 million for the previous year.

Year-over-year differences can be attributed to changes in non-cash operating items, specifically a $35.3 million increase in contract deposits from energy procurement and FIT Program contracts received during the year.

Operating cash flows were also affected by $13.6 million of expenses in excess of revenues and a $15.7-million non-cash charge to amortize existing regulatory assets that are in the process of being recovered. Cash flows from financing activities at the end of 2009 were negative $51.3 million, due to a decrease in the RPP variance account of $49.1 million as a result of the low HOEP rate in 2009. Cash flows from investing activities at the end of 2009 were negative $3.7 million due to the purchase of capital assets.

Consideration of Current Economic Conditions

The current global economic downturn has led to reduced electricity demand and lower market-clearing dispatch prices, also referred to as the HOEP.

As a market participant, the OPA faces similar market risks shared by other market participants during economic fluctuations. However, the OPA's operations are designed to focus on Ontario's long-term electricity needs and therefore activities such as power system planning, conservation and procurement of renewable and sustainable electricity resources will continue in all economic conditions. The OPA does not anticipate that a further decline in economic conditions or a sharp economic rebound will have a significant effect on its operations.

Risk Management – Protecting our Future

Operational Risk

The OPA reviews its enterprise-wide risk annually to identify the internal and external risks to the successful achievement of its mandate. This assessment is vital to ensure that the OPA develops mitigating strategies and incorporates the required responses into its daily operations. The risk management plan is reviewed and approved by the Board of Directors and contributes to the development of the OPA's business plan each year.

Each business unit of the organization establishes annual business objectives that incorporate mitigating responses to the risks affecting its functions identified in the risk management plan. In 2009, the OPA completed its annual business plan, covering the period from 2010 to 2012. This plan directly ties performance objectives and activities to strategic objectives and the mitigation of risk.

The OPA's risk management efforts are governed by the OPA's risk charter, which sets out responsibilities for risk assessment, monitoring and mitigation through predefined activities. Risk management efforts are led by the OPA's vice-president of finance and administration and are supported by dedicated risk professionals and a cross-functional business risk team. Quarterly reports on the status of the OPA's risk monitoring and mitigation activities are provided to the Board of Directors' Audit Committee.

The OPA's greatest risks relate to management's ability to deliver on its mandate as established by the Minister of Energy and Infrastructure. These risks include: the inability to recruit, retain and further the development of OPA staff; the possibility that a communications gap could lead to stakeholders losing confidence in the OPA's ability to deliver on its mandate; the inability to meet conservation targets as set by the Minister of Energy and Infrastructure; increases in the total cost of electricity, leading to stakeholder dissatisfaction at the management of the electricity sector; and financial risks that may arise from individual risk factors or a combination of risks. An OPA executive is assigned to each key risk, and the risk is monitored and evaluated against established mitigating strategies.

The OPA has also engaged an outside service provider for internal audit services from April 1, 2008, to April 30, 2011. This program is designed to provide an independent review of the organization's risk management policies and the effectiveness of its internal systems and procedures. The program will further enhance the OPA's risk management, while informing future policy development and programs to mitigate financial and operational risks inherent in the enterprise.

Regulatory Risk

The OPA is subject to regulatory risks, including an annual review of its revenue requirement by the OEB. Fee revenues are necessary for the OPA to execute its business plan. A denial of portions of the service levels supporting the revenue base could affect the OPA's ability to carry out its mandate as required by government directives and legislation.

Climate Change

The OPA does not directly operate any electricity infrastructure. However, it has contractual obligations with power suppliers that could expose the OPA indirectly to operational or system risks caused by climate change issues. The impacts of climate change for OPA-contracted facilities include changing precipitation patterns, higher water temperatures, higher average temperatures, changes in cloud cover and changes in wind pressure.[1]

The OPA may be affected by existing or potential government regulations in key jurisdictions in which it operates. The Government of Ontario has introduced greenhouse gas emission reporting legislation that will form the basis of a proposed cap-and-trade system, and the federal government is proposing to introduce a national cap-and-trade program. Ontario is also a member of the Western Climate Initiative that is working toward forming a regional cap-and-trade program. These programs have the potential to affect OPA-contracted facilities. There is also an increasing likelihood that either a regional, national or multinational carbon pricing system will come into effect that could impose additional costs on fossil fuel-based generators. The costs of this legislation would flow back to the OPA under the current structure of its generation contracts and ultimately be borne by electricity ratepayers in the form of a larger global adjustment.

The OPA is part of the Ministry of Energy and Infrastructure's and the Ministry of the Environment's Electricity Stakeholder Working Group that receives updates on cap-and-trade developments. The OPA also closely monitors emerging federal legislation to ensure that it is properly positioned in a future cap-and-trade regime, and is able to collect and report any additional data required to meet its contractual obligations.

To oversee the management of climate change issues, the OPA has established a climate change committee composed of representatives from each functional business unit. The committee tracks emerging issues and provides strategic input to the OPA's senior executive team on climate-related topics.

Emerging Accounting Pronouncements

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) has approved an exposure draft of proposed amendments to section 4400 of the CICA Handbook governing the reporting standards of not-for-profit organizations.

The proposed amendments include the reporting of gross amounts of revenues and expenses and the disclosure of allocated fundraising and general support costs.

Section 4400 was also revised to include a cross-reference to section 1100, which requires reporting to be in accordance with Canadian generally accepted accounting principles, including applicable accounting guidelines and Emerging Issues Committee Abstracts issued by the Accounting Standards Board of the CICA, where matters are not specifically addressed by section 4400.

These changes have an effective date relating to fiscal years beginning on or after January 1, 2009. The proposed amendments are not expected to affect the OPA's operations.

Transition to New Accounting Standards

Government organizations that meet the criteria of a government business enterprise have been mandated by the Public Sector Accounting Board (PSAB) to adopt International Financing Reporting Standards (IFRS) as of January 1, 2011. The OPA does not meet the criteria of a government business enterprise since it does not collect any of its fee revenues from the public directly. The OPA is therefore not mandated to adopt IFRS.

In 2009, the PSAB eliminated the government business type organization category for which the OPA qualified. Reporting entities that previously fell into this category now must choose between two new organizational categories: government not-for-profit organizations and other government organizations.

[1]Government of Canada, "From Impacts to Adaptation: Canada in a Changing Climate 2007," http://adaptation.nrcan.gc.ca/assess/2007/pdf/full-complet_e.pdf.

The PSAB concluded that an entity that qualifies as a government not-for-profit organization can choose to follow Public Sector Accounting Standards (PSAS), or PSAS supplemented by section 4400 of the CICA Handbook. The OPA does not qualify as a government not-for-profit organization, as it is not similar to any other not-for-profit organization in the private sector. It is therefore not mandated to adopt PSAS.

The OPA is considered to be an other government organization, and has been given the option by the PSAB to adopt IFRS or PSAS for its 2011 fiscal year. The provincial government uses PSAS and consolidates the OPA's financial results on a line-by-line basis. As a result, the OPA should adopt PSAS.

The OPA is assessing the impact that the adoption of PSAS standards would have on its current business operations. It is also considering including additional note disclosures to further increase the transparency of its financial statement information once the new standards are fully adopted in 2011.

Controls over Financial Reporting – Trust through Transparency

OPA management has created a system of internal controls designed to provide reasonable assurance that its assets are safeguarded and that reliable information is available on a timely basis. In 2009, the OPA continued to build on progress made over the past several years to strengthen processes and procedures through the use of the framework developed by the Committee of Sponsoring Organizations of the Treadway Commission. The OPA's internal audit function continued to perform assessments of key areas based on an established risk environment and annual risk assessments.

Management periodically reports to the Audit Committee of the Board of Directors on the progress of key internal control developments. The OPA also requires management certifications of internal controls and letters of representation on the reasonableness of financial information and compliance with the OPA's code of conduct.

Executive Compensation Plan

Program Objectives

The OPA executive compensation program is an integrated program for all executive staff. It is designed to attract, retain and motivate the calibre of executives required to support the achievement of the OPA's statutory mandate, corporate vision and business objectives. Accordingly, the compensation philosophy and program have the following objectives:

- to focus executives on meeting the OPA's business objectives
- to attract qualified and talented executive staff needed to carry out the OPA's mandate
- to retain valued executive staff
- to provide flexibility to differentiate total compensation for specific executives based on individual results and demonstrated competencies
- to establish compensation levels that are responsible and defensible to stakeholders.

The philosophy underlying these objectives is that the total compensation for executive management should be sufficient, but not more than required, to attract the skills and competencies needed to carry out the OPA's mandate.

Program Governance

The Board of Directors establishes the objectives for the compensation program. It delegates to the Human Resources Committee of the Board of Directors the responsibility to review thoroughly the compensation objectives, policies and programs and make recommendations concerning them to the full Board of Directors for approval. In carrying out their mandate, members of the Board of Directors have access to management's perspectives as well as those of expert consultants in the compensation field. The program is reviewed at least annually in terms of business needs, program objectives and design, industry compensation trends, internal compensation relativities and external market relativities.

In addition to the formal governance and oversight structure in place for compensation matters, the OPA annually discloses compensation levels for staff earning above $100,000 as part of its public sector salary disclosure under the Public Sector Salary Disclosure Act (Ontario). For the OPA, a further level of public review and assurance is provided through a statutorily required annual fee review by the OEB. Compensation matters, including management compensation and market relativities, are addressed during this review. A broad range of stakeholder groups, assisted by their legal and professional advisors, are represented in these public proceedings. The OPA is also responsive to various requests for information by the Ministry of Energy and Infrastructure in relation to compensation matters. These include inquiries pertaining to the Agency Review Panel's 2007 review and report on senior management compensation for agencies in Ontario's electricity sector.

Program Description

The program includes fixed and performance-related variable compensation, core benefit plans and pension provisions. For the fixed compensation plan, the Board of Directors establishes broad salary ranges for each level of executive, taking into account comparable market relativities. Within these bands, individuals are assessed, based upon demonstrated competency, as developmental, capable/skilled or expert in their position, relative to the success factors set out in the OPA's established competency profile for executives. This profile consists of behavioural competencies such as: decision quality, innovation management, dealing with ambiguity, strategic agility, developing direct reports, command skills, sizing up people, drive for results, political savvy, negotiating, managing vision and purpose, ethics and values, and self-development. Each executive's level of achievement with respect to reaching annual objectives is also evaluated. Based on the executive's ability to demonstrate competency in the behavioural categories outlined above and his or her ability to achieve the established annual objectives, each executive is assigned a corresponding fixed compensation level within the band.

The performance pay plan was established to promote a results orientation in the executive team. For the executives, the variable pay plan provides for annual incentive payments of up to 15 percent of fixed compensation. The Board of Directors annually establishes a robust set of performance objectives and expectations that is evaluated at the end of each year. Decisions regarding the actual variable compensation amount awarded to each eligible individual are based upon individual performance against these criteria. The OPA was instrumental to the successful implementation of key government initiatives in 2009, such as the Green Energy Act. The Board of Directors commended the OPA's executives for their accomplishments and strong performance during a year in which the OPA's achievements exceeded its original objectives. However, in light of the economic environment and consequent spending restraint measures in the public sector, the variable pay pool for executives was set at 9.2 percent of the sum of their annual fixed compensation (a 25-percent reduction in the 2009 variable pay pool compared to the 2008 pool) and was distributed to individual executives based on an assessment of their 2009 performance. The total incentive payments to executives were within the established budget of 9.2 percent.

The OPA provides a group benefit plan and pension benefits through the Public Service Pension Plan for the current and future well-being and financial security of its executives. The group benefit plan provides a core level of health and dental benefits, life insurance, disability coverage and vacation.

The defined benefit pension plan provides two percent of earnings per credited year of service. After age 65, this pension is reduced to reflect provisions of the Canada Pension Plan. Retirement income is provided through a registered pension plan and a supplemental employee retirement plan. The OPA and plan members contribute equally to the plan.

Performance Measures and Effect on Compensation

The OPA annually establishes corporate performance measures relating to its strategic priorities. As outlined above, the results achieved every year have an effect on each executive's variable pay. Table 4 highlights the OPA's business priorities and provides a brief description of its 2009 goals and objectives. Detailed information regarding performance against 2009 goals and objectives is provided in the sections of this report entitled "Message from the Chair and CEO," pages 2 to 3, and "2009 in Review," pages 4 to 25.

Table 4: OPA Business Priorities and 2009 Goals and Objectives

Business Priority	2009 Goals and Objectives
Planning	Plan for and facilitate the development of a reliable and sustainable electricity system.
Conservation	With our partners, facilitate the measures needed to achieve North America's most ambitious conservation targets.
Electricity Resources	With our partners, enable Ontario's renewable energy goals by expediting the move to a greener, cleaner electricity system.
Corporate Support	Sustain a high-performing organization that is diverse and flexible, collaborative and results-oriented.

The following five-point rating scale is used to determine the results for both corporate and individual performance objectives and to calculate the associated variable pay amount:

1. **Did not achieve objectives:** Did not achieve expected objectives and/or did not demonstrate an acceptable level of performance.

2. **Partially achieved objectives:** Achieved only part of the expected objectives. Consistently demonstrated a solid level of performance on some requirements, but not all.

3. **Achieved objectives:** Achieved expected objectives and consistently demonstrated a solid level of performance.

4. **Exceeded objectives:** Exceeded the expected objectives and consistently demonstrated a high level of performance.

5. **Greatly exceeded objectives:** Significantly exceeded expected objectives and consistently demonstrated an outstanding level of performance.

Other Considerations

Benchmark compensation data for similar positions in several jurisdictions across Canada are used to establish the compensation program for the following year. In accordance with the Agency Review Panel's 2007 recommendations, the comparator organizations are a combination of private and public sector, the comparator data are weighted on a 50/50 private/public sector basis, and the mid-points of the OPA salary ranges are aligned with the 50th percentile of the comparator data.

Compensation decisions may at times be affected by market factors, such as the recruitment of an executive with specialized skills and competencies or possessing unique talents in the industry.

The comparator employers include 12 energy sector organizations operating in four major Canadian jurisdictions: Ontario, Quebec, Alberta and British Columbia. The list of comparators is set out below.

Table 5: Comparator Employers

Public Sector	Private Sector
British Columbia Hydro and Power Authority	Bruce Power
Enersource Hydro Mississauga	Enbridge Gas Distribution Inc.
Hydro One Inc.	FortisAlberta Inc.
Ontario Power Generation Inc.	Petro-Canada
PowerStream	Terasen Gas
Toronto Hydro Corporation	Ultramar Ltée

Executive Compensation Statement

Table 6 sets out the annual compensation for the year ended December 31, 2009, for the listed executive officers. Compensation is reported over a rolling three-year period. The total cash compensation information provided below differs from the information published under the Public Sector Salary Disclosure Act (Ontario) for the indicated period. This is due to the inclusion of employer pension-related payments and employer-paid benefits in the public sector salary disclosure information. Disclosures under this act are the amounts listed on T4 taxation forms for each year.

Table 6: Summary of Executive Compensation[2]

Name, Position Title	Year	Salary	Variable Compensation	Total Cash Compensation	Amounts Reportable Under Public Sector Salary Disclosure Act[3]
Colin Andersen,[4] Chief Executive Officer	2009	$523,780	$49,247	$573,027	$573,881
	2008	$160,000[5]	$18,958[6]	$178,958	$179,190
Kimberly Marshall,[7] Vice-President, Finance and Administration (CFO)	2009	$223,198	$20,097	$243,295	$244,149
	2008	$181,923	$26,400	$208,323	$209,102
Amir Shalaby, Vice-President, Power System Planning	2009	$368,777	$33,251	$402,028	$446,164[8]
	2008	$364,000	$45,500	$409,500	$450,365[9]
	2007	$350,000	$45,500	$395,500	$443,061[10]
JoAnne Butler,[11] Vice-President, Electricity Resources	2009	$339,748	$32,302	$372,050	$372,987
	2008	$325,981	$40,200	$366,181	$402,068[12]
Paul Shervill, Vice-President, Conservation	2009	$312,757	$28,787	$341,544	$349,386
	2008	$308,275	$33,910	$342,185	$352,348
	2007	$289,424	$38,981	$328,405	$341,292

[2] Executives are listed in the following order: Chief executive officer, chief financial officer, then in alphabetical order by first name.

[3] Total T4 income, including taxable benefits.

[4] Hired, effective September 15, 2008.

[5] Includes a one-time only financial adjustment payment of $20,000, reflecting transition costs incurred by Mr. Andersen in accepting an offer of employment from the OPA.

[6] In 2008, the OPA's Board of Directors awarded Mr. Andersen an incentive payment based on his early performance in the role of CEO, prorated for the period of time he was employed at the OPA.

[7] Hired, effective February 25, 2008.

[8] Includes a payment in lieu of pension benefits.

[9] Includes a payment in lieu of pension benefits.

[10] Includes a payment in lieu of pension benefits.

[11] Hired, effective January 2, 2008.

[12] Includes a one-time only financial adjustment payment of $35,000, reflecting transition costs incurred by Ms. Butler in accepting an offer of employment from the OPA.

The pension benefits of these executives are summarized in Table 7.

Table 7: Summary of Pension Benefits[13]

Name	Credit Split Between OPA and Pre-OPA Service at December 31, 2009	Deferred Annual Pension at Age 65 at December 31, 2009	Credited Years of Service at Age 65[14]	Projected Annual Pension at Age 65	Increase in Projected Annual Pension at Age 65 from 2008 to 2009	2009 Employee Contributions and Interest to December 31, 2009
Colin Andersen	Pre-OPA service: 21 years, 1 month OPA service: 1 year, 4 months	$141,710.21	40 years, 10 months	$418,633.45	$2,982.32	$44,713.22 + 354.54 = $45,067.76
Kimberly Marshall[15]	OPA service: 1 year, 10 months	Not applicable	16 years, 7 months	$69,182.26	$998.75	$18,534.77 + $146.97 = $18,681.74
JoAnne Butler[15]	OPA service: 2 years	Not applicable	14 years	$90,892.81	$1,308.06	$28,624.79 + 226.97 = $28,851.76
Paul Shervill	Pre-OPA service: 20 years, 10 months OPA service: 4 years, 8 months	$117,992.47	31 years	$166,492.68	$2,209.59	$26,269.34 + $208.29 = $26,477.63

Board of Directors Compensation

The Board of Directors is responsible for the stewardship of the OPA. It is composed of 10 independent, external directors, appointed by the Minister of Energy and Infrastructure, with broad experience in both industry and public sector organizations, plus the chief executive officer. The directors have a duty to act honestly and in good faith in the best interests of the OPA. They are expected to exercise prudence and sound judgment in the decisions they make and to use their professional knowledge and expertise in performing their duties.

The directors receive a quarterly retainer of $6,250, and $1,000 for each board or committee meeting that they attend in person. Directors are paid an hourly rate of $200, to a maximum of $1,000 for meetings attended by teleconference. Committee chairs receive an additional stipend of $1,250 per quarter. The chair of the Board of Directors receives an additional stipend of $12,500 per quarter while serving in that capacity.

In December 2008, the OPA compared its directors' fees to those of comparable agencies and found that its fees were closely aligned with those paid by these organizations. Reflective of expense-restraint measures within the OPA and choosing to lead by example, the board reduced all directors' 2009 fees by 10 percent.

[13] Although the OPA has existed for five years, some of the named executive officers may have additional years of credited service due to their participation in the Public Sector Pension Plan with other public sector employers, or due to reciprocal pension agreements with other organizations in the electricity sector.

[14] Assuming named executive officer continues to work and participate in the PSPP up to age 65.

[15] As of December 31, 2009, named executive was not a vested member of the PSPP and was not yet eligible for a PSPP pension benefit. Had the executive ended her PSPP membership on December 31, 2009, she would have received a refund of her contributions plus interest.

Auditors' Report

To the Board of Directors

We have audited the statement of financial position of the Ontario Power Authority as at December 31, 2009, and the statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada, January 29, 2010

Statement of Financial Position

(in thousands of dollars)
December 31, 2009, with comparative figures for 2008

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 19,932	$ 50,067
Accounts receivable (note 3)	206,530	73,515
Prepaid expenses	129	301
	226,591	**123,883**
Capital assets (note 4)	7,710	5,484
Regulatory assets (note 5)	29,676	44,614
Total Assets	**$ 263,977**	**$ 173,981**
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	$ 214,895	$ 95,795
Contract deposits (note 7)	35,789	532
	250,684	**96,327**
Deferred rent inducement, net (note 8)	836	980
Long-term liabilities	–	1,488
Regulatory liabilities (note 5)	14,089	63,188
Net assets		
Internally restricted Conservation and Technology Development Funds (note 9)	6,671	6,039
Invested in capital assets	7,710	5,484
Accumulated operating surplus (deficit)	(16,013)	475
	(1,632)	**11,998**
Commitments (note 8)		
Contingencies and guarantees (note 14)		
Total liabilities and net assets	**$ 263,977**	**$ 173,981**

See accompanying notes to financial statements.

On behalf of the Board of Directors:

John Beck
Chair

Colin Andersen
Chief Executive Officer

Statement of Operations

(in thousands of dollars)
Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Revenue		
Fees	$ 50,350	$ 52,530
Recovery of regulatory accounts (note 5)	15,665	–
Registration fees	557	733
Interest income	43	493
Other income	12	153
	66,627	**53,909**
Expenses		
Compensation and benefits	26,182	22,609
Professional and consulting fees	23,137	23,343
Amortization of regulatory accounts (note 5)	15,665	–
General operating costs (note 10)	9,419	7,860
Conservation and Technology Development Fund expenses (note 9)	3,868	2,743
Amortization of capital assets	1,466	1,030
	79,737	**57,585**
Excess of expenses over revenue before interest	(13,110)	(3,676)
Interest expense	520	523
Excess of expenses over revenue	**$ (13,630)**	**$ (4,199)**

See accompanying notes to financial statements.

Statement of Cash Flows

(in thousands of dollars)
Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Cash flows from operating activities		
Excess of expenses over revenue	$ (13,630)	$ (4,199)
Items not involving cash:		
Amortization of capital assets	1,466	1,030
Amortization of deferred rent inducement	(144)	(142)
Amortization of regulatory accounts	15,665	–
Change in non-cash operating items (note 12)	21,514	(14,302)
	24,871	**(17,613)**
Cash flows from financing activities		
Repayment of long-term liabilities	(19,587)	(8,327)
Received for long-term liabilities	18,099	–
Increase in regulatory assets	(727)	(1,285)
Decrease in regulatory liabilities	(49,099)	(82,358)
	(51,314)	**(91,970)**
Cash flows from investing activities		
Purchase of capital assets	(3,692)	(1,478)
Decrease in cash and cash equivalents	(30,135)	(111,061)
Cash and cash equivalents, beginning of year	50,067	161,128
Cash and cash equivalents, end of year	**$ 19,932**	**$ 50,067**

	2009	2008
Supplemental cash-flow information		
Interest paid	$ 335	$ 122
Interest received	$ 706	$ 2,556

See accompanying notes to financial statements.

Statement of Net Assets

(in thousands of dollars)
Year ended December 31, 2009, with comparative figures for 2008

	Net Assets Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operating Surplus	Total Net Assets 2009	Total Net Assets 2008
Balance, beginning of the year	$ 5,484	$ 6,039	$ 475	$ 11,998	$ 16,197
Excess of expenses over revenue	(1,466)	–	(12,164)	(13,630)	(4,199)
Establishment of funds					
Conservation Fund	–	3,000	(3,000)	–	–
Technology Development Fund	–	1,500	(1,500)	–	–
Conservation Fund expenses	–	(2,410)	2,410	–	–
Technology Development Fund expenses	–	(1,458)	1,458	–	–
Purchase of capital assets (net)	3,692	–	(3,692)	–	–
Balance, end of the year	**$ 7,710**	**$ 6,671**	**$ (16,013)**	**$ (1,632)**	**$ 11,998**

See accompanying notes to financial statements.

1. Nature of operations

The Electricity Restructuring Act, 2004 (the Act), established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent, non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with the Act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources
- to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources
- to engage in activities that facilitate load management
- to engage in activities that promote electricity conservation and the efficient use of electricity
- to assist the OEB by facilitating stability in rates for certain types of customers
- to collect and provide to the public and the OEB information relating to medium- and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

The OPA's ability to continue as a going concern is dependent upon its ability to obtain financing to support operations. The OPA's creditworthiness is attested to by the following:

- the ability of the OPA to meet its obligations is provided for in legislation
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

2. Significant accounting policies

(a) Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition

Amounts received in the current year that relate to services and programs to be determined in subsequent years are not recognized as revenue and are deferred.

Fees earned by the OPA are based upon OEB-approved rates for electrical energy withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is received and earned.

(c) Cash and cash equivalents

Cash and cash equivalents comprise bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 120 days.

(d) Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service Life
Furniture and equipment	10 years
Computer hardware and software	2.5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

Long-lived assets, including capital assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position. In 2009, no impairment is considered necessary.

(e) Employee pension benefits

The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA has insufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Measurement uncertainty

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(g) Adoption of new accounting standards

Effective January 1, 2009, the organization adopted the Canadian Institute of Chartered Accountants (CICA) amendments to section 4400 of the CICA Handbook. These amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal and require a statement of cash flow. Adoption of these recommendations had no significant impact on the financial statements for the year ended December 31, 2009.

Effective January 1, 2009, the organization adopted the CICA amendments to section 1000 of the CICA Handbook. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. Adoption of these recommendations had no effect on the financial statements for the year ended December 31, 2009.

(h) Future accounting changes

During fiscal 2009, the Public Sector Accounting Board (PSAB) of the CICA determined that the category of government business type organizations, of which the OPA was previously classified, will cease to exist. The OPA will become categorized as an other government organization and will be required to adopt a financial reporting framework based upon PSAB standards or International Financial Reporting Standards commencing with its fiscal 2011 financial statements. Management is currently reviewing its options and assessing the impact on the financial statements.

3. Accounts receivable

	2009	2008
Receivable from IESO	$ 173,253	$ 65,146
Conservation charges	32,957	7,961
Other	320	408
	$ 206,530	$ 73,515

4. Capital assets

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Furniture and equipment	$ 2,822	$ (848)	$ 1,974	$ 1,981
Computer hardware and software	4,723	(2,072)	2,651	503
Audio-visual equipment	229	(81)	148	171
Telephone system	321	(112)	209	142
Leasehold improvements	3,944	(1,216)	2,728	2,687
	$ 12,039	$ (4,329)	$ 7,710	$ 5,484

5. Regulatory assets and liabilities

Regulatory assets, liabilities and deferrals arise as a result of the Electricity Act, 1998 and the regulations thereunder and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, the government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	2009	2008
Total regulatory assets	$ 29,676	$ 44,614
Total regulatory liabilities	(14,089)	(63,188)

RPP variance accounts

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. When the hourly Ontario energy price (HOEP) is greater than the RPP, the OPA pays the excess amount and records a regulatory asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a regulatory liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2009	2008
OPG rebate contribution	$ (591,671)	$ (543,305)
Total RPP variance before interest	562,208	463,661
Interest earned	15,374	16,456
	$ (14,089)	$ (63,188)

Retailer contract settlement deferral accounts

Legislative provisions ensure that electricity retailers will be made whole by the OPA for contracts with low-volume and designated consumers that were entered into before prices were frozen by legislation effective November 11, 2002. The OPA and retailers settling any differences between the HOEP and the contract price for each contract meet these provisions. When the HOEP is greater than the contract price, the OPA receives payments from the retailers and records a regulatory liability. When the HOEP is less than the contract price, the OPA pays the retailer and records a regulatory asset. The OPA tracks these variances in the retailer contract settlement deferral accounts.

The retailer contract discount settlement account captures the funds related to the retailer incentives existing at the creation of the RPP. The retailer incentives captured are held in a separate deferral account for settlement concurrent with the retailer settlement deferral accounts.

As the contracts to which the retailer settlement accounts relate have now largely expired, it is appropriate to begin disposing of the balances in these accounts. To mitigate ratepayer impact, the OPA will recover the accumulated balance of total retailer contract settlements over a three-year period from 2009 to 2011. The OPA has begun amortizing the accumulated balance in 2009 on a straight-line basis over the three-year recovery period. The amortization expense for 2009 is $14,324 (2008 - $0).

	2009	2008
2005 retailer contract settlement account	$ (26,201)	$ (39,233)
2006 retailer contract settlement account	34,616	51,833
2007 retailer contract settlement account	23,843	35,700
2008 retailer contract settlement account	87	(282)
2009 retailer contract settlement account	367	–
Retailer contract discount settlement account	(3,237)	(4,847)
	$ 29,475	$ 43,171

Government procurement deferral account

The OPA reimburses the government for costs incurred for electricity procurement and records the costs as a regulatory asset. To recover 2008 balances, government procurement costs of $1,341 were requested in the 2009 revenue requirement submission and recovered during the year, while the remaining balance of $102 was submitted in the 2010 revenue requirement submission. Any subsequent balances will be included in future revenue requirement submissions. The OPA has begun amortizing the government procurement costs in 2009 on a straight-line basis, with amortization as at December 31, 2009, totalling $1,341 (2008 - $0).

	2009	2008
Government procurement costs	$ 201	$ 1,443

Global adjustment account

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions results in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for: Demand Response 3 (DR3), non-utility generation (NUG), regulated nuclear generation balancing amount (nuclear) and regulated hydroelectric generation balancing amount (hydro). These accounts are settled simultaneously by the IESO. The account also records the

amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management) that the OPA settles on a monthly basis with the IESO.

The DR3, NUG, nuclear and hydro balances are offset in the global adjustment account, eliminating the need for a flow of funds between the IESO and the OPA. The OPA records the effect of the transactions to meet its legislated responsibility.

The OPA generation contracts are estimated each month and settled on the actual amount owing in the following month. This gives rise to timing differences. The settlement dates can cross calendar months, creating a monthly balance in the account. Differences created from timing or settlement dates are reclassified into accounts receivable at month end. The net impact of global adjustment transactions creates a zero balance in the account at every month end.

	2009	2008
DR3	$ 8,121	$ 1,264
NUG	961,613	479,315
Nuclear	1,367,679	74,293
Hydro	183,575	(264,752)
Global adjustment balancing amount	(4,218,889)	(900,660)
OPA Contracts	1,697,901	610,540
	$ –	$ –

6. Accounts payable and accrued liabilities

	2009	2008
Accrued contractor settlements	$ (171,136)	$ (63,738)
Accounts payable	–	(670)
GST payable	(11,457)	(2,290)
Other accrued liabilities	(32,302)	(29,097)
	$ (214,895)	$ (95,795)

7. Contract deposits

The OPA receives performance security in the form of deposit amounts received from renewable energy supply and demand response contractors. The deposits are larger during the construction phase and are reduced once a project commences commercial operations.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the contractor on request.

8. Deferred rent inducement and operating lease commitments

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of $1,430. As at December 31, 2009, the deferred rent inducement, net of amortization, was $836 (2008 - $980).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2009, the accrued liability was $313 (2008 - $295).

All lease commitments are set to terminate coincidentally in October 2015. The minimum annual payments under the operating lease are approximated as follows:

Lease commitments	
2010	$ 1,303
2011	1,384
2012	1,385
2013	1,388
2014	1,393
2015	1,101
	$ 7,954

9. Internally restricted Conservation and Technology Development Funds

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, nine funds have been set up as depicted in the table below.

	Restricted fund	Expensed 2009	Expensed prior years	2009
2005 Conservation Fund	$ 1,100	$ –	$ 837	$ 263
2006 Conservation Fund	1,500	(6)	1,581	(75)
2007 Conservation Fund	3,000	706	1,943	351
2008 Conservation Fund	3,000	1,277	357	1,366
2009 Conservation Fund	3,000	433	–	2,567
2006 Technology Development Fund	1,000	14	473	513
2007 Technology Development Fund	1,000	176	456	368
2008 Technology Development Fund	1,500	663	414	423
2009 Technology Development Fund	1,500	605	–	895
	$ 16,600	$ 3,868	$ 6,061	$ 6,671

10. General operating costs

	2009	2008
General program costs	$ 4,970	$ 4,128
Premise	2,737	2,536
Office and administration	967	939
Information technology	745	257
	$ 9,419	$ 7,860

11. Pension plan

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined benefit pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2009, the OPA paid or accrued contributions totalling $1,572 (2008 - $1,233) during the year.

12. Change in non-cash operating items

	2009	2008
Increase in accounts receivable	$ (133,015)	$ (20,839)
Decrease (increase) in prepaid expenses	172	(241)
Increase in accounts payable and accrued liabilities	119,100	7,542
Increase (decrease) in contract deposits	35,257	(764)
	$ 21,514	$ (14,302)

13. Related party transactions

The OPA considers the OEB, Hydro One, the IESO, OPG, Ontario Financing Authority (OFA) and the Ministry of Energy and Infrastructure as related parties due to the relationship they maintain with the Government of Ontario. Transactions between these parties and the OPA were as follows.

Under the Ontario Energy Board Act, 1998, the OPA incurs registration and licence fees. Consistent with other registrants, in 2009 the OPA received a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were $1,083 in 2009 (2008 - $1,062).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2009, the OPA procured $18,682 in conservation demand management (2008 - $12,766) from Hydro One and its wholly owned subsidiaries.

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2009 was $66,015 (2008 - $52,530). In addition, the OPA and the IESO have agreements for the settlement of amounts paid and received for the global adjustment account, RPP and retailer contract settlement deferral accounts (see note 5). At December 31, 2009, the OPA had a net receivable of $173,253 (2008 - $65,146). The OPA also incurred $350 (2008 - $257) for IESO consulting services.

The OPA has an agreement with OPG for consulting services and planning support. In 2009, the OPA incurred $13 (2008 - $17) for such services.

The OPA has available a revolving operating facility in the amount of $975,000, provided by the OFA to fund its general operating expenses and support the RPP variance account. The line of credit was renewed in 2006 for a three-year term from January 1, 2007, to December 31, 2010. The facility has been unused since 2007.

In the 2008 revenue requirement submission to the OEB, the OPA requested and received an OEB decision to carry the costs related to the government procurements in a deferral account to settle coincidentally with the retail contract settlement deferral accounts. The amount of $99 was incurred in 2009 (2008 - $167).

14. Contingencies and guarantees

Contingencies

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense recorded on the OPA's financial statements. As at December 31, 2009, in the opinion of management, no such liabilities exist.

Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of $1,000, as incurred by the energy supplier. While none of these costs have been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2009, management is not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

Guarantees

The OPA is contingently liable under a loan guarantee provision in a contract with a maximum potential exposure of $8,600. The outstanding loan balance under this contract that the OPA has guaranteed is $184 as at December 31, 2009, and is not in default. The contract related to this guarantee expires in September 2012.

15. Fair value of financial assets and financial liabilities

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The fair values of the regulatory assets and regulatory liabilities are not provided because it would not provide additional useful information, as they would be offset and/or would not be practical to determine.

16. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Corporate Information

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representative on the Health
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the Board of Confederation
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Audit Committee
Retired from BC Hydro
and BC Transmission
Corporation (President
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BC and Vancouver Island
Health Authority; and Chair,
Axia Software Corporation

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Associates Inc. and
Director, Program on
Water Issues, Munk Centre
for International Studies,
University of Toronto

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Former Dean of Osgoode Hall
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of Ontario

Ronald L. Jamieson,
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Retired from BMO Financial
Group, where he was Senior
Vice-President, Aboriginal
Banking; Director, Nuclear
Waste Management
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Investments Inc.; Chairman,
Canadian Council for
Aboriginal Business

Colin Anderson, *Director*
Chief Executive Officer,
Ontario Power Authority

**Term of office expired on*
February 16, 2009.

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on the Board of Directors,
including the Board Charter
and Code of Conduct,
Governance and Structure
By-Law, and Board
committees, please
visit the OPA website,
www.powerauthority.on.ca
and select About OPA;
Management, Mandate
and Organization; Board
of Directors.

Corporate Officers

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Michael Lyle,
General Counsel and
Vice President, Legal and
External Affairs

Colin Andersen,
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JoAnne Butler,
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Amir Shalaby,
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Power System Planning

Ben Chin,
Vice President,
Communications

Paul Sherrill,
Vice President, Conservation
and Sector Development

Peter Love,
Chief Energy
*Conservation Officer**

John Zych,
Corporate Secretary

**Left the OPA on June 26, 2009 after statutory elimination*
of position of Chief Energy Conservation Officer.

OPA
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